

MUNICIPAL FINANCE AND MANAGEMENT PROJECT (MFM)

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FINAL REPORT

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MUNICIPAL FINANCE AND MANAGEMENT PROJECT (MFM)

FINAL REPORT

I. Background

The roots of USAID's Municipal Finance and Management (MFM) Project trace back to 1991/92 World Bank studies on Municipal Finance in Russia. USAID focused on the basic concept of transforming and modernizing municipal finance and expanded it to include enhancement of democratization and management at the municipal level, thus strengthening the process of decentralization. The MFM Project was conceptualized to establish pilot programs in selected, reform-oriented cities; to document successful practices; and to explore ways to disseminate pilot cities' positive results. The project was designed to introduce to municipalities in NIS countries the best available techniques and systems for municipal budgeting, finance and management in the context of democratic local governance and a free market economic system.

The project began with activities in eight municipalities. In Russia, advisors began in Moscow, Nizhny Novgorod and Vladivostok. In Ukraine, the initial cities were Kharkiv, Ternopil, and Lviv. In Central Asia, the cities were Atyrau, Kazakhstan and Karakol, Kyrgyzstan. Field teams were backed by expatriate technical assistance as appropriate, and a project management team in Washington.

The overall goal of the MFM Project was *"to improve the effectiveness, efficiency, accountability and transparency of municipal government"* in the Newly Independent States (NIS). This goal was set out in the first MFM Action Plan. The Project had a threefold impact in most of the eight pilot cities. Some basic tenets of democratic governance took hold; innovations in practice, procedures and systems increased efficiency and effectiveness and improved management of municipal finances; and the pilot cities generally created a more favorable local environment for national and international investment. For example, in most MFM cities municipal governments shared budget and other critical information with the public, invited citizen input and commentary and used the media effectively to share information and interact with the people. Reorganization of city structure, implementation of information systems and improved financial systems are common to MFM cities.

At the same time, local economic development was a theme and a variety of approaches was applied to attract capital and raise revenue. This was a new area of activity after the project began and was introduced because it became clear that Mayors need to show that in addition to r they were doing things that improved people's lives and economic conditions. Movement

on the economic front gave mayors and city administrations the credibility to move ahead with reforms in other areas, such as finance and management.

In all four countries, our experience at the local level gave us the knowledge and insight to be effective at the national level and gave the Project and our host country counterparts a legitimate place at the national policy table. This was especially true in Ukraine, working with the Ukrainian Association of Cities and in Russia, working with the Union of Russian Cities and regional municipal associations.

The MFM project was implemented through the use of long term advisors in each of the eight pilot cities, through training, technical assistance and application of information systems. The project began in July of 1993 and was originally scheduled to end in July of 1996. Contract modifications extended the life of the contract through March of 1997. Some of the subsequent work of the MFM Project was then carried on by the Aid to Russian Municipalities (ARM) Project in Russia and by three projects in Ukraine (Municipal Development and Management IQC, Effective Local Government Project, and Urban Transport Project).

II. Project Results

Broadly, the results of the MFM Project were similar in each of the four countries. As a pilot program, its objectives were demonstrably achieved in each of the eight pilot cities. The foundations were put in place for reaching out and disseminating the Project's benefits to other cities, and that work was begun in Russia and Ukraine. During the course of the Projects noted below, the MFM Project transformed from a purely pilot program to one that influences policy and action in other cities and at the national and regional levels.

The objectives were essentially the same four as set out in the first MFM annual workplan and captured in the individual city workplans and budgets submitted to USAID in December 1994 as the second annual workplan. These objectives were restated to conform to changing USAID emphasis during implementation. The objectives are stated below in bold italics, followed by a general baseline statement and statement of MFM response. The four objectives were:

1. ***Strengthen municipal finance and management effectiveness, including creating an enabling environment for investment, economic development and the market economy.***

Baseline: At the start of the MFM project, cities in the NIS were struggling with increased responsibilities under a somewhat more decentralized and supposedly democratic form of governance. Cities lacked the experience, skills, techniques and tools to manage effectively. Cities were up against a demand for change unprecedented in recent history. Yet, many of the old laws, rules and patterns of behavior of the former centralized system of command and control administration were in place. For example, in all four countries municipal finance was vertically subordinated to the Ministry of Finance. Cities controlled only minor revenue sources and had limited control over expenditures. Major revenue sources were controlled at the national and oblast levels, which allocated revenue shares to cities and set norms for city expenditures in many key areas. It was naturally difficult under these circumstances for cities to manage their operational finances and to create conditions that would inspire confidence of domestic and international investors. Virtually no controls were in place to insure accountability, *e.g.* through audit trails. Cities were left ill-prepared to undertake strong local management of financial, human and capital resources.

MFM Response: The MFM project focused on introducing concepts of management and finance compatible with more democratic governance and a free-enterprise economic system. Cities were exposed to these concepts through study tours to high-performance U.S. cities and institutions, U.S. expert consultancies, shared technical information, and specialized training both in the U.S. and in host countries. The quality and timeliness of financial and other information was improved by introducing management information systems, financial control

systems, and modern budget and accounting practices. Moreover, the policy framework governing municipal management and finance was changed through strengthening municipal lobbying groups to influence national laws and regulations that govern municipalities.

2. *Instill essential tenets for democratic governance through increased transparency, accountability, openness and citizen participation.*

Baseline: Democracy had come slowly to the NIS. When the MFM Project started, only a few cities in Russia and none in the other three countries had experienced democratic local elections. There was no recent history of open decision-making, no open meeting laws, and no precedent for public disclosure of financial information. There were no elected boards and no public participation in city council meetings without explicit permission. Decision-making was concentrated in the hands of a few key officials, and there was little citizen knowledge of how they might influence decisions affecting their lives. There was widespread alienation from government at all levels and distrust of government officials.

MFM Response: MFM's long term advisors established relationships with key officials which permitted consultation and frank discussion. Advisors pointed out the advantages of open and transparent governance through study tours, training and translation of technical materials. The advisors facilitated movement by the local administrations to greater openness and accountability and wider public participation in decision-making. Explanation and publication of financial and other management data and government decisions occurred through press conferences and other forms of participation between officials and the public. Introduction of computer networks facilitated horizontal communication and undermined the vertical control of information. Generation and analysis of financial data in formats that could be easily understood within the city administration and by the public were encouraged. Publication of government information in the media and open meetings were also encouraged.

3. *Improve a city's ability to take actions that give its citizens hope for their future well being.*

Baseline: As the MFM Project commenced, the transition to a market economy and the breakdown of the already dysfunctional command economy were having a devastating impact on NIS cities. People were deprived of basic necessities like heat, hot water and sometimes even a regular supply of potable water. Transport systems were in a state of decline and waiting periods and crowding of bus stops and stations was on the rise. State-owned enterprises were shrinking, closing or struggling with privatization, and the jobs and services they offered such as health and educational facilities were declining rapidly. People were losing hope in their economic future even as they were enjoying new freedoms.

MFM Response: Elected city governments had to be able to demonstrate their viability by providing a basis for people to hope for a better economic future. MFM promoted economic

development, privatization of services, increased revenues for capital improvements and direct improvements in services that immediately touch people's lives, such as transportation and health.

4. *Create the foundation for sustaining and spreading the above.*

Baseline: The changes that MFM attempted to make, as described above, were not in place in any of the pilot cities at the start of the MFM project. When and as these changes were introduced, they rested on fragile supports and sometimes faced resistance and outright detractors. There were few local or national level institutions or laws to advance or support changes or to help in their dissemination.

MFM Response: The baseline situation just described was one of the most serious challenges facing the Project. To ensure that MFM changes grew locally and spread nationally, a number of measures were taken. First, various approaches were used to harden changes locally, such as extensive training, integration into policy level decision-making, public "buy-ins" through participation, working with or even developing local training institutions, extensive exposure to new approaches by local government, coordination and inclusion (co-option) of oblast level officials. At the national level, mechanisms were sought to lobby for changes in legislation that supported decentralization, privatization and local democracy. Training modules of MFM concepts were prepared for dissemination.

We made significant progress against these objectives in each country, as this report demonstrates. Specific activities, by country and city, follow in the next section. A key to the above objectives has been included at the end of each city matrix for easy reference.

III. Activities and Results

This section briefly describes the country context for each of the four countries in which MFM operated, since each one was quite different. This is followed by a table showing core activities by city indicating results achieved during the Project. The "assessment" section (not included for performance monitoring activities) comments on any lessons learned or problem areas.

RUSSIA PROGRAM

The MFM project began in Russia in September 1993 and was completed in March 1997. Originally intended as a three year project, the program duration was extended in Russia for an additional six months.

Russia

Russia was the largest of the MFM programs with pilot cities of Moscow, Nizhny Novgorod and Vladivostok. Earlier studies by The World Bank influenced to some degree the nature of the Russia program which had a clear focus on finance, budgeting and systems management. However, in the Russia program, much had been accomplished also in the area of democratization and improved management. Moscow was selected for participation because it was seen as the lead city in the country and so clearly influenced the pace for other cities. Nizhny Novgorod was selected as a reform oriented city in an Oblast famous for its reform leadership. Vladivostok was a reform city at the time of its selection, but also was seen as key because of its importance as a gateway city in the Far East and the dominant city in that region. A heavy-handed removal of the democratically elected leadership of the city cast doubt on Vladivostok's capacity for democratic reform; nevertheless, management reforms were realized and we sensed that MFM was building the institutional base for future democratization and reform in that city.

The approach to implementation had been to establish successful pilot programs in selected cities and to look for ways to expand on this work. In Russia the pilot cities were Moscow, Nizhny Novgorod, and Vladivostok. Programs in these cities were completed; efforts to repeat program impacts at the national level and in other cities were successfully rolled out, incorporating US-based and in-country training courses developed over the life of project. This paper sets out the achievements of the MFM project in Russia, focusing on the four basic areas in which it has made contributions rather than assessing each pilot city separately. In this way, as the program moved beyond the pilot phase into outreach and national level impact, we can see the general areas in which contributions were made in Russian cities, namely:

- Government and Policy Reform
- Finance
- Municipal Sectors
- Performance Management

For each category above, this section of the report assesses:

- The baseline or starting point of MFM activities
- What was achieved
- USAID's role, and (where relevant) how other donor involvement was leveraged
- The extent of institutionalization and rollout or what is recommended for next phase

We have made no attempt to separate out USAID's role from RTI's role in this section, as USAID in Russia facilitated this project all the way, giving guidance and direction where appropriate, refining objectives, and helping to overcome bottlenecks.

. Government and Policy Reform

. Decentralization

The old Soviet system was still in place when it came to municipal finance in our project cities, where advisors and counterparts struggled with top-down control of budget decision making. Still, significant change was possible, producing momentum at both the municipal and national levels for greater local budget autonomy. One very effective approach was working to enhance the authority, legal status, and effectiveness of city associations.

In Russia, we collaborated with the Union of Russian Cities which had reached a certain state of maturity and national recognition. Indeed, in Russia there were also a number of regional associations of cities, for example the Association of Far East and Siberian Cities, which was also a program partner. MFM's work with the Union of Russian Cities started through joint sponsorship of seminars and courses. The objectives were to spread the benefits of MFM pilot programs and to institutionalize the knowledge gained in the first three Russian cities to an organization that had both sustainability and outreach potential. MFM sought to influence decentralization policy and legislation at the national level and to assist Russian cities in their democratic transition by helping these city associations collaborate on a common agenda of priority municipal issues. MFM's work on decentralization also included reaching out to as many other cities as funding permitted with technical assistance and training, and involving local Russian professional experts to the maximum extent possible in those programs.

b. Democratization

MFM

Activities supported by MFM were "real" in that citizens cared about them and had a stake in their successes. The newly elected officials came to understand this higher level of accountability. For example, MFM had been able to convince mayors in some cities to hold public, televised hearings on the annual city budget, to convene focus groups, and to publish detailed budget information in newspapers for public consumption-- and all these efforts increased public input into decision making. Democratic initiatives in MFM's Russian cities are highlighted below.

Nizhny Novgorod

- The mayor presented the budget to the public on television,
- MFM facilitated a successful workshop on conflict resolution and team building to resolve chronic differences between the city and the oblast on the budget,
- An MFM workshop with the National Democratic Institute (NDI) demonstrated how to provide public input into the budget process--local civic associations participated in the workshop, as did representatives of the city Duma and city raions.

The Nizhny Novgorod mayor's televised budget presentations grew out of a very positive three-part TV series filmed in the United States during an MFM study tour in which he participated. The experiences in American cities had a powerful effect on the Mayor's approach to public relations, and information sharing, as shown in his efforts to strengthen the city's public relations department. He introduced conflict resolution and team building sessions which resulted in a dramatic reduction in the time it took to reach agreement on the city budget-- from nine months at the start of the project to about two months this last year. The collaborative workshop with NDI was very well received and the civic associations were eager to continue and expand these sessions.

Moscow

- Virtually the entire City Duma (city council) participated in U.S. study tours focused on democratic institutions and legislative-executive relationships. Since those study tours, the Duma members had taken some impressive initiatives to transfer elements of their experiences to governance in Moscow. Previously, the newly elected Duma was just feeling its way, unaware of the many facets of a legislative body's role and of its own potential. It tended to be totally preoccupied with social and political issues, and almost completely out of touch with the Moscow city administration and the real issues of governance.

On return from America, Duma members reported a drastic change, namely a shift in emphasis away from political and social issues to finance and economic issues. Many of the members who had lacked the background to see the close linkages between social and economic issues began to think more along these lines. Duma members also began to seek

out opportunities and ways to have more direct contact and dialogue with the city administration.

Included in the range of democratic techniques introduced since that time were public opinion polling and open hearings. Much to the members' surprise, the public seemed less enthusiastic about democratic participation than the Duma. For example, when polled about their interest in local (neighborhood) self government, more than 50% of respondents gave a positive response. However, when asked if they would like to participate themselves in local self-government, the majority answered "no." When asked if they were willing to pay more taxes for projects to benefit the community, again, the majority answered "no." One former Duma member said that people are just used to government doing everything for them and this old pattern would be hard to break, although a local self-government law, recently passed at the Federal level, left the door open for neighborhood, civic organizations.

The Duma U.S. study tours also had an impact on city government organization. One dramatic example of the influence of the study tour related to the establishment of a Securities and Exchange Commission in Moscow. The Commission had been authorized by law prior to the tour but members had ignored it. Several members became intensely interested in this issue on the tour and carried out an investigation of Securities and Exchange Commissions in the U.S. Based on information and guidance received in the U.S., the Moscow Securities and Exchange Commission was established in October 1995. In a related development, the first municipal bond issue by the city was also closely tied to the experience gained during the study tour. Duma members studied municipal bond issues in each U.S. city they visited. To capture this initiative, an MFM Capital Finance Seminar was conducted in Moscow in March 1996.

Another direct impact of the Duma tours was the development and passage of the new budget law. One influential member became very interested in this topic during the tour and when he returned to Moscow, he wrote a new law based on specific examples from Chicago and Indianapolis. This law called for open budget hearings much like those employed in the American cities. These hearings were held in May 1995 in preparation for the budget for the next fiscal year.

Additionally, the Duma visit to the U.S. was influential in the establishment of its Audit Chamber, the first and then the only such chamber in the country, although others have begun to emerge. The regulation requiring the Chamber had been in place prior to the tour, but the knowledge gained in the U.S. was influential in making it similar to U.S. state-level organizations and in developing professional links with counterpart organizations in the U.S. They were particularly interested in audit regulations; the legislative basis for audits; how to get more control over budgetary expenditure and accountability; and how to select and train professional audit staff. They were also interested in developing relationships with relevant international professional associations, such as the International Association of Controllers.

- Moscow Conference. An all-Russia municipal conference in May 1995, inspired and assisted by MFM, was organized by the City and the Office of the President to emphasize the importance of local participation in municipal governance. The conference was attended by high-level representatives of sixty seven cities in Russia. In the keynote speech, Moscow's Mayor Luzkov advocated local participation, cost cutting through competitive procurement, and management efficiency and he was well covered by national TV. The city published and distributed the proceedings of the conference and undertook a wide distribution. The conference was followed by Russia-wide expressions of interest in MFM principles and practices.
- . Economic Development

The test of a successful reform initiative was the greater opportunity for citizens to improve their

lives -- this was why economic development had become an important goal under the MFM Project. To appreciate what MFM had accomplished toward economic development, it was important to recognize that “economic development” as we know it, had not been part of the municipal lexicon in Russia. There were no concepts of economic development nor of the city's role to attract and stimulate private investment, boost employment, and increase income.

MFM's innovations in economic development in Russia were focused on Vladivostok. There, the Economic Planning Department had been modernized and transformed into a key policy development unit. It was directed to concentrate on promoting jobs and investments, stimulating small businesses, and seeking a balance in entrepreneurial activity (diversification from the ubiquitous kiosks and homogenous military installations) through such innovations as small loans and business incubators. This transformed unit learned to set priorities for capital expenditures rather than merely sending wish lists up the line or allocating resources evenly among all departments. With MFM guidance and training, the Department completed the city's first municipal bond issue. The Department spearheaded the training and certification of an audit staff in the city, established a city audit unit and promoted a nascent professional association of auditors.

- . Finance

In the former Soviet Union financial decisions for all levels of government were made by the Finance Ministry in Moscow, and each lower level of government was beholden to the next higher level for decisions on revenues and expenditures. This pattern was breaking down as cities sought more responsibilities and as central funds became unavailable. MFM helped to lay the groundwork for cities to effectively manage their own finances, including setting rates and fees, collecting revenues, making resource allocations, and conducting finance operations in a modernized, accountable framework. Our work in this area included exposing finance professionals to Western financial practices through study tours, training in fundamental concepts of market economies, fielding short- and long-term technical advisors to adapt

Western practices to local situations, and introducing and installing of modern hardware and financial accounting software systems.

. Russia MFM Program in Finance

Among all MFM's participating countries, Russia's three MFM cities generated the widest range of finance activities under the MFM project. In Nizhny Novgorod, MFM and the city opted for a state-of-the-art integrated financial system as is used in most major American cities. RTI subcontractor American Management Systems converted its Local Government Finance Systems (LGFS) software for use by the city and in licensed partnership with the City for this conversion. The process had been protracted from initial training through negotiating a license agreement to local introduction of the LGFS, and finally the conversion of screens into Russian language and local implementation to City conditions.

LGFS was used as the budgeting and finance system for the City and its raions, which have been linked to an integrated real-time financial network. The Finance Department also linked with the banks and with the local offices of the State tax inspectorate. This was a top of the line system which in the final analysis cost over \$1 million, including all hardware and software training. The purchase, importation and installation of the hardware were additional costs. The system would be usable in other large Russian cities that were in a position to purchase the license fee, the required hardware and extensive training. In that sense, Nizhny Novgorod was a model for other large cities in Russia. The city as a participating joint owner of the "Russified" version of LGFS would share in revenues on any future replication in Russia. The work in Nizhny Novgorod was finished in December 1996.

This city also participated in (see Annex D) the Financial Planning Framework (FPF) course, the Budget Analysis and Transparency (BAT) model, specialized technical assistance (TA) in finance, and a set of recommendations by MFM/RTI subcontractor Georgia State University on enhancing revenue projections and generation. This combination made Nizhny Novgorod the premier city in Russia for modern financial management, with maximum application of Western accounting and budgeting principles.

By contrast, in Vladivostok a comparatively low-cost approach to modern financial management was taken in which a local Russian company was hired to develop financial software for the city under supervision by a U.S. systems analyst. Vladivostok's system connected the raions with the finance departments electronically for data transmission and transactions to the banks and the State tax inspectorate. An innovative feature of this program for Russia was its audit trail. This system cost around \$200,000 to put in place, exclusive of hardware, and was made available to other municipalities for around \$25,000 including license fee, basic installation, and preliminary training. The system was first exported to Karakol, Kyrgyzstan under the MFM Project for the Central Asian Republics and then to Vladimir and Tver in central Russia.

In Vladivostok, Vladimir and Tver, users of the financial management system had received supplemental training through the FPF and CFC courses, and the BAT model.

The Moscow program focused less on the finance system and more on the basic spreadsheet and database analytical techniques within a fully-networked finance department. Finance Department officials at the city and district levels participated in the FPF courses. Moscow was also the point of departure for rollout of finance programs to Vladimir, Tomsk, Tver, Pskov and Krasnodar during 1996. The Municipal Budget Analysis (MBA), CFC and BAT courses were delivered in most of these cities and have been made available to others. The Union of Russian Cities, headquartered in Moscow, played a role as well in delivery of these courses and is still sustaining the effort.

Additionally, the Moscow program took the most sophisticated approach to revenue forecasting, analysis, and generation in the MFM project through a major program which involved Georgia State University as a subcontractor and the Moscow State Tax Inspectorate as a partner and counterpart. Specially-designed operating and analytical models, approaches, and training had a major impact on the city's ability to adjust to its revenue picture and also to influence national tax policy, since the City of Moscow accounts for more than one fifth of the total Russian tax revenue collections.

Finally, MFM provided its BAT Model tool to the Moscow city Duma Audit Chamber. The Director and staff wanted to use it as a tool in following the basic principles of budget analysis. Chamber staff used it to help analyze the impact of financial policies and inflation on the budget and report their findings to the Duma. Designated staff were assigned to work with the model to constantly analyze the impact of existing policies and to introduce new ones into the municipal government.

. Municipal Sectors

The broad scope of the MFM project included management and improvement of municipal service sectors. With more support and more time this was an aspect of the project that could have grown significantly, particularly in the areas of transportation, ambulance services, health, education, administrative services such as personnel and purchasing, and communications (including stimulating and facilitating cross departmental communication). Our broadest and deepest experience was in the area of transportation.

. Transportation Services

Comprehensive studies of the municipal transport sector were conducted in Nizhny Novgorod and Vladivostok. These studies led to important policy and management changes, such as new pricing regimes to cover maintenance costs, and scheduling and routing changes to improve services. In Nizhny Novgorod, a program of private construction of new bus stops,

in exchange for advertising space, was successfully introduced. Routing and scheduling changes improved efficiency and service while cutting operating costs. A visit on an MFM study tour to the U.S. by the Nizhny Novgorod Mayor resulted in the breaking of a logjam and the awarding of a \$360 million transport loan to Russia, of which Nizhny Novgorod received \$17 million. The MFM study helped the city Transport Department prepare itself for the financial management changes that were required as a condition of the World Bank loan for trolley buses.

The Vladivostok Finance Department, which wanted transportation recommendations to reduce costs and to increase fares to better cover operating and maintenance expenses, requested a transport study. At the time, the Transport Department received a large allocation and depended on subsidies from the city budget. The 1995 study was well received by the Transport Department which independently took some important initial actions based on recommendations. These included some rationalization of the fare structure and a decision by the city to form a joint stock company to maintain and stock spare parts for the transport system. After the city proved it did not have the will to follow the service delivery change strategy, RTI and USAID decided to re-focus technical assistance activities in Vladivostok on finance and economic development issues.

. **Social Services**

MFM in Moscow did a comprehensive management study of the city-wide ambulance service in response to frequent public complaints, unnecessary deaths and unfavorable media coverage. The study showed that it was losing lives through untimely and ineffective services. RTI's MFM subcontractor Andersen Consulting carried out the study, which was subsequently praised by the director of the ambulance service and other concerned, but impartial officials within the Moscow government. Although the director wanted to undertake many of the recommended management and organizational changes, his “political” supervisors did not want change. Regardless, the study remained an excellent example of how significant improvements in cost effectiveness and efficiency might be achieved even in old service systems through targeted management changes. If implemented, the recommendations were projected to save the ambulance service \$5.0 million per year while dramatically improving response time, effectiveness, and efficiency.

. **Communications**

Improved communications, while not an explicitly stated goal of the project, have been a consistent accomplishment of MFM. Our customer assessments (see Performance Management, below) indicated that a key MFM benefit had been initiating interdepartmental communications where little or none existed. This meant that raions would talk to each other

and the city departments, and communication also improved between city and oblast levels (e.g., between the city finance departments and the state tax directorates).

This improvement was accomplished through a variety of measures. First, many of the training programs and study tours included people from different levels and from various departments of local government — thereby giving them a common experience and opening dialogue among them. Second, project interventions in the areas of finance and public information were designed to overcome resistance to sharing information, making it a necessary element of working life. Finally, RTI was consistent about showing in all of its training and consulting that information sharing was a core element of good municipal management.

. Performance Management

MFM took seriously USAID's order to monitor the results and impacts of the MFM project. In so doing, some tried and true approaches were applied and new approaches were introduced. A performance monitoring matrix had been completed for each project city to track work plan elements and attempt to indicate impacts. When the project was first expanded to an outreach and national level impact stage in each country, the matrices were also expanded. Where feasible, the program tried to introduce performance monitoring to local staff and counterparts for use as a management tool.

MFM did comprehensive assessments in each city and country, an innovative part of which were customer/citizen assessments. Introduced under MFM, the customer assessments responded to USAID's directive to show client orientation in its projects. In Russia, customer assessments were done for Nizhny Novgorod, Vladivostok, and Moscow.

Quarterly reporting followed USAID guidelines and was formatted to describe progress toward achievement of work plan goals in each city. However, the MFM project had significant impacts in a variety of ways that were difficult to fully capture in matrix format. Another report format was also required to inform specific audiences about the success of the project.

To meet this need we initiated a series that we called the "*MFM Current Impact Series*." These press release-like pieces were intended to capture breakthroughs or achievements that resulted from specific MFM strategies, and either had or were expected to have significant long-term impacts. These statements formed an important part of the MFM legacy and helped not only to sell the program but to effectively spread its benefits.

Additional work continued to disseminate our experience to other cities in Russia and to prepare the groundwork for influencing policy and legislative reform for cities at the national

level. Following is a list of the ripple effect from the Pilot cities to the rollout cities, finally to the expanded outreach cities that would be a basis for still wider dissemination.

Cities Impacted by MFМ

Pilot Cities	Rollout Cities	Expanded/Outreach Cites
Moscow Nizhny Novgorod Vladivostok	Moscow Nizhny Novgorod Vladivostok Vladimir Tomsk Tver Krosnodar	Kemerov Pskov Kostroma Novokuznetsk Novosibirsk Yaroslavl Suzdal Nakhodka Kharbarovsk Yuzhno-Sakhalinski Irkutsk Magadan Rostov Maikop Nalchic Stavropol Makhachkala St. Petersburg Vladikavkaz Gelenzhik Tuapse Cherkessk Novorossiysk Anapa Armavir Tikhoretz Petrozavodsk Taliatti Dzerzhinsk Yekaterinburg

National Level

The Moscow office had become the locus for our overall Russia program, which included the national level activities. Dissemination of MFМ lessons and experience and implementation of outreach programs like that begun in the city of Vladimir went on to the cities of Tver, Tomsk and Krasnodar. These outreach cities became the base for reaching still more cities.

MFM

MFM formed a cooperative partnership with the Union of Russian Cities and work proceeded jointly.

Indeed, our programs there in finance and economic development planning have been highly effective and influential. With this work we began in the Russia program to disseminate our experience to other cities in Russia and to prepare the groundwork for influencing national level policy and legislative reform for cities. A matrix covering the national level was added to the reporting and was followed to the conclusion of the MFM program.

A modest rollout or dissemination program had been implemented by reprogramming money in the Moscow budget based on a written agreement with the USAID COTR. That agreement also extended our field advisors for the completion of the mini-rollout activities. That rollout included extending courses and seminars based on Russia project successes to many other cities, offering the courses in the rollout cities of Vladimir, Tver, Tomsk and Krasnodar as well as from the original pilot cities. MFM joined with the Union of Russian Cities to present the Principles of Financial Analysis course in Krasnodar. Other courses MFM presented include Municipal Budget Analysis (MBA) and Capital Finance and Performance Management. Also, as part of national level rollout, MFM installed its Budget Analysis and Transparency model in Tomsk, Tver, Vladimir, Moscow (Audit Chamber), and Nizhny Novgorod (for training seminar). This budget transparency model allowed cities to access trends, make projections and present easy to understand graphics to policy makers and the public.

NATIONAL PROGRAM		
Objective Served	Core Activity	Results

1,4	<i>Training in Capital Finance</i>	<ul style="list-style-type: none"> · 36 participants from eight cities attended the second Capital Finance workshop conducted near Moscow. Specific case studies of bond issuance were presented. · A special session was held one evening to go over the “actual” pending bond issuances for Moscow housing. · The seminar was repeated in far reaching cities such as Tomsk and Pskov to reach other city officials. <p>ASSESSMENT: Further consulting advice on three municipal bond issues was requested. Participants gave a high rating to the course for relevance and impact. Interest in sponsoring similar seminars that would include an even greater representation of private sector officials was sought.</p>
1,4	<i>Training in Principles of Financial Analysis</i>	<ul style="list-style-type: none"> · In a joint training seminar with the Union of Russian Cities in Krasnodar, finance directors from the Krasnodar and North Caucasus krais (14 cities) were invited by the Head of Budget and Finance Section of the Union of Russian Cities. · Topics included: U.S. budgeting practices, process and policy dept financing public-private roles in service delivery service cost containment municipal management decision making performance management <p>ASSESSMENT: The participants were engrossed by the “mock hearings” which were part of the training techniques used to demonstrate not only the budget analysis, but even more importantly, the transparency, accountability, management and political issues. The current proposals on reforming the revenue transfer system in Russia were presented. These ideas were being developed in order to influence legislation at the national level.</p>

1,4	<i>Installation of Budget Analysis and Transparency (BAT) model</i>	<ul style="list-style-type: none"> · BAT model was demonstrated in Tomsk to city and oblast administrations. · City officials found BAT model very useful to the city. · City-specific modifications were requested. · Installation was completed. · City of Tver and Vladimir also had BAT model customized to fit their city's needs. <p>ASSESSMENT: The City of Tomsk found that the BAT model provided a structured approach to analyzing historical revenue data for budget planning purposes. The oblast administration reacted more cautious and defensively than the city and did not welcome the model's transparency attributes. The oblast administration reassessed its opinion after its administrative reorganization. This reassessment was requested by the city's first vice mayor.</p>
1,4	<i>Municipal Economic Development</i>	<ul style="list-style-type: none"> · Union of Siberian and Far Eastern Cities was hosted by city of Vladivostok. · Heads of Vladivostok Finance and Economic Planning Department shared achievements under MFM. · Automated Municipal Finance System (AMFS) developed under MFM auspices was demonstrated. <p>ASSESSMENT: MFM achievements were showcased and used as examples of what could be accomplished in other cities in the Far East and Siberia.</p>

1	<i>Alternative means of financing repair and improvement of the city of Vladimir's central bridge.</i>	<ul style="list-style-type: none"> Both as a case study and as real technical assistance, the RTI team developed three project cost alternatives: (1) restoring the bridge to basic structural safety and some cosmetic improvements - \$2.5 million, (2) restoring the bridge to basic structural safety and adding a third lane to the bridge - \$5 million, and (3) adding two more lanes to the bridge and making all necessary structural repairs - \$11 million. Six sources of funding were discussed: (1) capital expenditures component of the city budget, (2) diversions from the non-capital portion of the city budget, (3) sale of city-owned assets, (4) new own-source revenue, (5) contractual agreement regarding regulating revenues with the Oblast, and (6) matching funds authorized by a new law on foreign investment. <p>ASSESSMENT: Vladimir city administration indicated a preference for the best affordable option, \$5 million repair and expansion to include a toll collection facility. This example of MFM capital finance activity in action became a teaching tool and a case study.</p>
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NATIONAL PROGRAM		
Objective Served	Core Activity	Results

1,4	<i>Training in Principles of Municipal Budget Analysis in Central Russia</i>	<p>As part of MFM expansion to other Russian cities, this course took place in Vladimir. The participants were budget officers, accountants, and prospective development analysts from the city administrations of Vladimir, Tver, Kostroma, Novokuznetsk, Yaroslavl, and Suzdal. The Union of Russian Cities was represented at this course as part of MFM's effort to institutionalize the dissemination of MFM concepts in Russia. The course covered the following topics: U.S. local government overview, implications of the new local self-government code in Russia, revenue and expenditure analysis using the Budget Analysis and Transparency model, fiscal policy formulation, debt financing, user fees, private provision of public services, and cost performance monitoring.</p> <p>ASSESSMENT: The participants for this activity gave high marks in their evaluation of the course. They found the training techniques to be new to them and beneficial. The topics of greatest interest were municipal bonds, independent auditing, tax and fiscal policy development and approaches for developing utility tariffs.</p>
1,4	<i>Training in Capital Finance in Vladivostok</i>	<p>Participants from six cities in Far Eastern Russia attended and praised highly the new information and skills they picked up at the workshop. This was the first outreach program of the MFM program to this area of Russia. Several municipal bond models were presented. Discussions centered on which features were likely to be found in future Russian municipal bond issues. A sample bond issue was designed and a discussion held on national and local policy issues concerning local government debt.</p> <p>ASSESSMENT: Evaluations pointed to a great success. The integration of materials from the U.S., Eastern Europe and Russia was a key to the course's success. The participants were exposed to concepts and analysis that they will need as they contemplate municipal borrowing.</p>

1,2,4	<i>Develop approaches to provide professional support to municipal finance officers and build basis for influencing national policy and legislation on municipal finance and management</i>	<p>The President of the Government Finance Officers Association (GFOA) and RTI Consultant Bob Leland met with members of the Union of Russian Cities' (URC) Budget and Finance Section. Their discussion included lobbying for city's fiscal interests at the federal level and approaches to budget development and execution.</p> <p>ASSESSMENT: URC and MFM representatives agreed to conclude a formal agreement between the MFM project and the URC regarding institutionalization of MFM activities through their organization, after the parliamentary elections.</p>
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Key to Objectives:

- (1) Finance and management
- (2) Democratization
- (3) Building basis for hope
- (4) Institutionalization and sustainability

Moscow

The theme of the Moscow program was *to increase accountability, transparency, and efficiency in fiscal management and effect organizational change in the city bureaucracy that would yield a more democratic and participatory system of governance*. Toward this end, the Moscow MFM program focused on:

- Fiscal systems reform, and
- Executive and legislative management change and reform

The Moscow MFM program was the largest and most complex, reflecting the size and importance of this city. Specific activities were refined to four core areas under which all actions fit. Examples of specific activities appear in the results section.

MOSCOW		
Objective Served	Core Activity	Results

1, 2	<i>Development of an Integrated Financial Management System in the Dept. of Finance.</i>	<ul style="list-style-type: none"> • ADP system for Moscow Department of Finance was designed, procured and installed. • MFM advised city government on revenue bond issue. <p>ASSESSMENT: The city government deliberated over whether it wanted to undertake a fully integrated finance system, after initially signing on. USAID focused on this issue with the city government and resolved to assist in other areas. Meanwhile, MFM moved ahead on schedule with basic planned improvements in the financial management system.</p>
1,4	<i>Mayor's Management Decision Support System.</i>	<ul style="list-style-type: none"> • An information network and reference library were established in the mayor's office to facilitate improved information, analysis, coordination and decision-making. For the first time, the mayor's office will share an information system with other key government departments. • The ADP information network for the mayor's office was completed, installed and customized. • Chief MFM counterpart (Mayor's Director General) attended U.S. Urban Land Institute (ULI) Conference and returned with idea of starting similar organization in Russia. He continued working with ULI as a member of its International Advisory Board and applied lessons learned to executive decision making. <p>ASSESSMENT: The Mayor's Management Support System linked the departments with the flow of information and new ideas that were afforded by the MFM project and became integrated into the management informatory system of the City.</p>
1,3	<i>Re-engineering Ambulance Service Operations. (Sub-contractor: Andersen Consulting)</i>	<p>Task was completed, and Ambulance Service director pledged to undertake strategic changes within his authority that would improve service to citizens.</p>

1,4	<i>Institutionalization and dissemination.</i>	<ul style="list-style-type: none"> • We chose a Russian partner institution to help disseminate the MFM successes in Russia and to continue dissemination training on into the future. We found ways to spread these successes directly to other cities. • League of Russian Cities agreed to participation in MFM, focusing on lobbying for changes in national legislation to improve management and finance at the municipal level. • Russian institutions were surveyed for which ones might collaborate on the dissemination phase of the Russia program. Selected institutes were expected to continue MFM type training and TA when the project concluded. • RTI successfully tested a Budget Analysis and Transparency (BAT) tool in Vladimir using Vladimir budget and municipal data and city wanted to adopt it for policy analysis and public information purposes. The model was incorporated as part of a dissemination program in Russia. • Cities of Tomsk, Tver and Vladimir officially requested participation in MFM finance and management reform and were included as rollout cities. <p>ASSESSMENT: Successful programs from the core cities were seen to have value for a “wider range” program of regional cities interested in financial reform.</p>
1,4	<i>Performance Monitoring and Evaluation (PME) System.</i> The PME system was used by resident advisors to: 1) track progress toward workplan and project objectives, 2) provide systematic reporting of performance data, and 3) develop and institutionalize the concept of performance management in pilot cities.	<ul style="list-style-type: none"> • Staff continued refinement of baseline and target measures related to significant project activities. • Monthly performance data were collected.

MOSCOW

Objective Served	Core Activity	Results
1	<i>Development of Fiscal Analysis/Forecasting Capability within the Department of Finance.</i>	<ul style="list-style-type: none"> · RTI and the Moscow State Tax Directorate agreed to work on development of revenue projection models that would have significant impact on municipal and national policies and revenues. · Revenue forecasting models were used as policy tools to evaluate the impact of proposed changes in tax laws on Moscow and national revenues. The analysis was used for as a basis for influencing national tax policy and for evaluating comparatively the performance of Moscow's 37 District Tax Inspectorates in order to improve performance. · In-country training for Russian tax professionals at the State Tax Inspectorate training center was carried out by RTI, Georgia State University and the Russian State Tax Inspectorate. · Tax Policy Evaluation Models, which openly described the data, were developed and used as part of the training. <p>ASSESSMENT: This work openly described the data used and represented a departure from a more closed past policy. This follow-on to the Phase I work with the Finance Department continued to add a new dimension that allowed MFM to influence policy, laws and administration at the national level. The Moscow State Tax inspectorate accounts for 40% of the country's revenue so when it developed the capacity to analyze and anticipate the impact of new regulations and legislation, the Inspectorate feels it was able to influence and change national tax and revenue policies.</p>

1	<i>Development of Fiscal Analysis/Forecasting Capability within the Department of Finance.</i>	<ul style="list-style-type: none"> · Database for the micro-simulation models for Revenue Forecasting consisted of 28,738 observations from Moscow Territorial Tax Inspectorate. · Georgia State had sufficient observations to construct time series models for revenue forecasting. · STI Training Center, a profit earning organization that used its own staff, tax inspectors, and invited professors and experts from the Finance College of the Ministry of Finance, the State Academy for Management, and the Federal Finance Academy, was chosen to be a partner for the revenue forecasting and tax modeling training. <p>ASSESSMENT: RTI sub-contractor Georgia State's preliminary findings on the initial sample of enterprise balance sheet data were that a majority of the observations contained missing information or contained information that could not be replicated using rules that would replicate the existing tax structure. The simple stratification of enterprises illustrated that non-reporting was more prevalent among larger enterprises. RTI and Georgia State were very impressed with the professionalism they found at the STI Training Center.</p>
1,4	<i>Mayor's Management Decision Support System.</i>	<ul style="list-style-type: none"> · The management support system network was linked to the city's principal management information network. · Allocation of equipment among three agencies was adjusted to take into account Moscow City Government's matching equipment purchase. <p>ASSESSMENT: The small network also was installed in the Library and then became a point of professional and technical information dissemination. This ultimately became the electronic repository of the "digested" technical resource materials.</p>

1,4	<i>Training in Strategic Performance Management (Seminar)</i>	<ul style="list-style-type: none"> · This was an opportunity to introduce the activities of the MFM project to a broader audience of top level Moscow Government leaders. · Purpose was to explore how the Moscow Government could adopt a performance management orientation to its existing planning approach. · Approach was introduced by discussing the overall concept, types of service cost analysis, types of measurement, and clients for performance management information. <p>ASSESSMENT: Advisors initially were concerned about willingness of high level officials to cooperate in group exercises, though participants responded positively. This focused seminar was a one time event for the Moscow program. Performance Monitoring and was considered for planned dissemination and rollout activities.</p>
1	<i>Development of Fiscal Analysis/Forecasting Capability within the Department of Finance.</i>	<p>Sub-contractor Georgia State completed the installation of revenue forecasting and tax simulation models and conducted a one week training session in Moscow on their use.</p> <p>ASSESSMENT: This activity, after initial delays, was completed and became the basis of an expanded technical assistance project with the Moscow Tax Inspectorate.</p>
1,4	<i>Performance Monitoring and Evaluation (PME) System. The PME system was used by resident advisors to: 1) track progress toward workplan and project objectives, 2) provide systematic reporting of performance data, and 3) develop and institutionalize the concept of performance management in pilot cities.</i>	<ul style="list-style-type: none"> · Customer survey scheduled was delayed owing to competing priorities. · Baseline and target measures related to specific project activities were refined. · Monthly and quarterly performance data were collected.

1,4	Mayor's Management Decision Support System.	<ul style="list-style-type: none"> · A training course for the Department of Social and Economic Reforms and Forecasting and the State Tax Inspectorate in Delphi software was completed giving the professional staff enhanced capacity. · An agreement was signed with the Institute for Social Sciences to produce Russian digests of American local government publications. These digests became available electronically via the project network that connected the Mayor's library, the Department of Social and Economic Reforms and Forecasting, and the Department of Economic Policy and Development. · The Information Technology Center financed the establishment of communication links between the Forecasting Department and the Vice Mayor and Mayor. <p>ASSESSMENT: This program covered several areas based on improving communication among several segments of local government. An MFM customer survey shed light on areas where additional instruction or information was needed.</p>
1,2	<i>Development of an Integrated Financial Management System in the Dept. of Finance.</i>	<p>Completed network enabled the computers that were purchased under the USAID contract and supplemented by additional equipment from the Federal Ministry of Finance and the Moscow City Government to improve fiscal and management analysis capability, facilitate transparent information exchange, and increase productivity in the DOF.</p> <p>ASSESSMENT: The network was designed to link and integrate the major activities of the city's main finance agency, in order to significantly strengthen the Mayor and his key staff's ability to analyze the city's fiscal position and make appropriate policy decisions. The system performed as expected and designed.</p>

Nizhny Novgorod

The theme of the Nizhny Novgorod program was *to improve the overall performance of the Department of Finance and thereby increase the city's capacity to finance and manage its services most efficiently*. The Nizhny Novgorod program completed the translation and adaptation of an integrated finance system. A financial systems expert working with the local programming company, Consul-Incom, was trained to operate as the new LGFS implementation project manager. The program was closely watched, visited and supervised by our Moscow office with RTI technical systems backup.

Nizhny Novgorod was the first MFM city to have a long term advisor and became a lead city in the project. It was the first to see the long term advisor complete his eighteen month assignment, with key objectives achieved or on course. MFM in Nizhny had a strong influence on the city's openness, transparency, and management effectiveness. Substantial savings had been realized through better financial data and controls. Moreover, the city took bold steps in sharing budget and other information with the public and in attempting to resolve conflicts with the Oblast using conflict resolution and team building skills. The city created its 1998 budget using its new integrated financial management system installed through MFM. This Local Government Finance System (LGFS) software, as modified, is jointly owned by its originator, American Management Systems and the city.

Consul-Incom was spawned through the MFM program and was contracted for the operation and maintenance of the new LGFS system. AMS now considers Consul-Incom a partner firm.

NIZHNY NOVGOROD		
Objective Served	Core Activity	Results
1	<i>Development of revenue and expenditure forecasting spreadsheet tools and training in their use.</i> Objective is adoption of this tool in the city's regular budgeting process.	<ul style="list-style-type: none"> Georgia State completed a report on the municipal revenues. City considered additional funding sources in its budget process. <p>ASSESSMENT: The report was well received and suggestions were planned to be used in the next budget cycle. The recommendation of hiring of a financial analyst for developing the financial analysis and modeling was still being considered at the end of the project.</p>
1,2	<i>Modernize the budgeting and finance process — making the Finance Department more effective, accountable and transparent division of city government.</i>	<p>Local Government Finance System (LGFS) development included:</p> <ul style="list-style-type: none"> The LGFS has been installed and tested. Documentation written reviewed and accepted. Training course completed for users of the integrated system. LGFS was used to develop the city budget. LGFS was running now in all raions. Systems administrators were recruited to maintain the system under contract. Systems features included: the budget preparation function, the revenue collection and reporting function, the expenditure recording and reporting function, automated communications feature for electronic data transfer, and procedures to maintain and audit trail of information processed. <p>ASSESSMENT: The Project has provided the city with the first modern integrated financial system with the capacity to meet all international standards for accounting and reporting. In the next stage the city will have to make additional institutional changes to fully utilize the russified system for which it is joint owner.</p>

NIZHNY NOVGOROD		
Objective Served	Core Activity	Results
1,2,3,4	<i>Municipal Leadership capacity building and democratization.</i> The objective was to modernize and westernize management approaches as much as possible, focusing on democratic governance.	<ul style="list-style-type: none"> RTI and National Democratic Initiatives (NDI) helped the Department of Finance hold a pioneering budget hearing before the City Duma which was fully covered by all the media. The hearing was then opened to participation of civic associations from the city's raions in another first for the city. RTI and NDI trained all of the groups in the importance and techniques of such hearings and there was strong sentiment for these hearing to take place now on an annual basis. <p>ASSESSMENT: This hearing went very well, as did the collaboration between RTI and NDI. This was recommended as an excellent activity for rollout in Russia, though no further iterations were planned for Nizhny Novgorod.</p>
1,4	<i>Performance Monitoring and Evaluation (PME) System.</i> The PME system was used by resident advisors to: 1) track progress toward workplan and project objectives, 2) provide systematic reporting of performance data, and 3) develop and institutionalize the concept of performance management in pilot cities.	<p>Results of customer survey to determine user perceptions of MFM project and utility of city's progress under MFM included:</p> <ul style="list-style-type: none"> · City and Raions "getting closer together" · Greater receptivity by city officials to the need for computers to manage the city effectively · Change in city officials' and staffs' attitudes about their work · Potential impacts beyond Nizhny Novgorod- new classification of accounts · Opening up of city business to the public

Key to Objectives:

- (1) Finance and management
- (2) Democratization
- (3) Building basis for hope
- (4) Institutionalization and sustainability

Vladivostok

The theme for the MFM program in Vladivostok was *to give the city the basis for a modern approach to management by transforming two key departments -- Finance and Economic Planning*. It took time to alter our perceptions of what we were going to achieve in Vladivostok. As the program in Vladivostok was completed, positive changes were happening in the areas of accountability, efficiency and transparency. These changes were being built into the structure of the city and they were spreading.

The isolation of Vladivostok from Moscow, the conservative attitude of officials that stems from this isolation, the fact that it was a closed military city and the lack of democratic leadership there since early in the project made the city a difficult place in which to get things done. However, we received excellent cooperation and participation from the Finance and Economic Planning departments and the city met its obligations. Dramatic changes had happened and are occurring in the Economic Planning Department as a result of MFM's work. A solid foundation for efficiency, transparency and accountability in budgeting was created in the Finance Department. It was no accident that MFM chose for its focus in Vladivostok two key departments that had dynamic and more reform oriented leadership. When political circumstances change in Vladivostok, MFM will have prepared important ground for democratic governance.

To build on the departmental successes and to work against the isolation, representatives from Vladimir and Tomsk were brought to Vladivostok to evaluate the Automated Municipal Finance System (AMFS) software developed under MFM for use in their cities. MFM in Karakol also was interested in procuring this system.

When the full time advisor left Vladivostok, a residual staff of two Russians remained to oversee the final implementation of ADP systems and training and completion of software. Our local systems employee completed his assignment when the final components of hardware were delivered and installed. An RTI systems expert completed a final assessment of the ADP. He said it was the best overall installation of an ADP system he perience on USAID projects.

The Vladivostok office worked with the city on the final stages of the development of the AMFS and facilitated the negotiations for dissemination of the software to other cities. The program in Vladivostok was completed while work was being completed in the other cities.

VLADIVOSTOK

Objective Served	Core Activity	Results
1,2	<i>Modernize the budgeting and finance process --making the Finance Department more effective, accountable and transparent.</i>	<p>Automated Municipal Finance Software (AMFS) development included:</p> <ul style="list-style-type: none"> · Loan monitoring module was developed to automate the management of the loans given from budget funds and extra-budget funds to enterprises. The module had adequate control and early warning features for loans outstanding, delinquent loans, interest and principal repaid and loans retired. · Systems features included: automating the budget preparation function, automating the revenue collection and reporting function, automating the expenditure recording and reporting function, automated communications feature for electronic data transfer between sub municipal entities, and security/audit log to maintain an audit trail of information processed. <p>ASSESSMENT: System was more advanced than the existing infrastructure in the banks and the Tax Inspectorate. Automatic payment transfer system worked well.</p>
1,2	<i>Modernize the budgeting and finance process --making the Finance Department more effective, accountable and transparent.</i>	<ul style="list-style-type: none"> · The AMFS was installed and tested. · Documentation was written, reviewed, and accepted. · A training course was completed for users of AMFS. · A security pyramid design was completed and tested. · AMFS operated in all five raions. Systems administrators were recruited by the raion administrations to maintain the system. <p>ASSESSMENT: Problems completing the link between the city and the bank forced a change in the communications module. As an example of political interference: The city was told by the Oblast Finance Department to change banks, necessitating a new software link. Developers of the software completed the modifications which were paid for by the City.</p>

1,2,3	<i>Modernize the Economic Planning Department and enhance its policy influence and capacity to promote economic development.</i>	<p>Follow up visit of Consultant resulted in 6 recommendations:</p> <ul style="list-style-type: none"> · Consolidate economic development activities in the current Economic Planning Department. · Establish a joint city/bank lending program for small business. · Delay decision on establishing regional agency for small business support until survey of current services and needs is completed. · Establish joint venture support enterprise. · Establish an information sharing work group to promote full use of the capabilities of the new systems. · Consider conducting a tax collection audit. <p>ASSESSMENT: The City was slow to adopt the stronger recommendations.</p>
1,3	<i>Develop approaches to increase revenues, decrease costs and improve services in city transportation.</i>	<p>The transportation activity was completed. Some recommendations were implemented; for example, an increase in fares to help cover costs, and plans by the Transportation Department to set up a joint stock company to maintain and stock bus/trolley parts.</p> <p>ASSESSMENT: More concrete changes would have been accomplished in this sector had it been selected as one of the two key focus areas for the MFMM project. However, the MFMM Transport report provided the city with a blueprint for transformation. The report was being used.</p>

2,3	<i>Democratization</i>	<p>Much of what went on in the MFM program as reported above represented the underpinnings of a more democratic approach to governance. This included:</p> <ul style="list-style-type: none">• Turning around of two key departments that influence policy and all other city departments plus introduction of an audit trail• Establishment of a corps of auditors and an audit department• Incorporation of an association of professional auditors into this underpinning• Introduction of competitive bidding, giving the city a good basis for assessing priorities and presenting budget information to the public in understandable format• Information sharing that will be going on throughout the city administration as a result of MFM management systems. <p>ASSESSMENT: MFM's impact on democratization was not as direct as in other cities due to the unfavorable political environment and the rapid turnover of our principal counterparts, the First Deputy Mayors. However, the institutions of accountable and transparent governance were being put into place very effectively and should have a positive long term impact. Moreover, the city leadership took an interest in the project toward the end that approached that of the earlier pre-coup days.</p>
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1,4	<p><i>Performance Monitoring and Evaluation (PME) System.</i></p> <p>The PME system was used by resident advisors to: 1) track progress toward workplan and project objectives, 2) provide systematic reporting of performance data, and 3) develop and institutionalize the concept of performance management in pilot cities.</p>	<ul style="list-style-type: none"> • Results of customer survey to determine user perceptions of MFM project and utility of city's progress under MFM: <ul style="list-style-type: none"> · Change in city attitude · Computer LAN system for the city and Raions · Successful study tours - exposure to new ways of doing city business · Valuable transition assistance during period of political instability · Increase in demand for department services (Information Department) · Easier work because of computers; staff ability to spend more time doing analysis · Possibility of quicker and more frequent budget analysis · City embarkation on work in capital bonds, with guidelines prepared and capital finance seminar planned · Transportation sector assessment as basis for management improvement · More efficient reporting to KRAI, on computer diskette · Elimination of work redundancy by using computers · Better ability to monitor budget expenditures using computers · Improved hope for the future of the city · Quicker tax rate preparation for the Raions by using computers · Information base for small business development · Better ability to monitor city department performance through LAN and database
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Changes in Work Program

A decision was made by USAID, with RTI endorsement, to start reprogramming elements of the Moscow budget to permit the Russia MFM program to move into an outreach or rollout phase that would have an impact on national policy and decentralization. The money affected

MFM

was that amount which had been reserved for an integrated finance system for the city of Moscow, but to which the city was reluctant to commit. Serious implementation of the outreach program started with these funds.

The Vladivostok MFM office was extended to facilitate the planned USAID final assessment visit plus the acquisition of AMFS software for other MFM cities.

The management systems for the cities of Vladimir and Tver were analyzed and approved. Representatives from Vladimir and Tomsk visited Vladivostok to assess the financial software that was developed for the city. The representatives determined that the software could be modified for use in Vladimir and Tomsk. Plans to acquire the software were realized during the dissemination phase of the MFM project.

UKRAINE PROGRAM

MFMM implementation in Ukraine began in early 1994 with the selection of three pilot cities: Kharkiv, Lviv, and Ternopil. Long-term advisors in the pilot cities encouraged city officials to identify their most pressing concerns and to set priorities within the overall framework of the MFMM project. The MFMM Project made significant progress in helping pilot cities to increase the transparency, openness and accountability of municipal administration. Program results have contributed to major turnarounds in the approach to management in each of the pilot cities and have sparked much interest and enthusiasm from other Ukrainian cities.

In December, 1995 the Project began national-level policy work in Kiev which added breadth and depth to our efforts. MFMM supported a nascent Ukrainian Association of Cities (UAC) which over the period of project involvement developed into a more legitimate and widely-recognized non-governmental organization championing local government. The UAC's expanding role sparked interest from national policy-makers and international counterparts confirming the importance of the Association as a national player.

The MFMM Project made contributions in four basic areas: improving the efficiency and effectiveness of local government; increasing transparency of local government operations and accountability of local leaders; improving local government services; and supporting the establishment of effective representation of local government at the national level. For present purposes it is reasonable to take another step back and view the activities and accomplishments of MFMM's Ukraine project in terms of broader areas of learning. The balance of this section is organized according to five fundamental categories:

- Governance and Policy Reform
- Economic Development
- Finance
- Municipal Sectors
- Performance Management

While we describe the accomplishments of a hands-on, local program like MFMM, it must be remembered that many hands were involved and many hearts were committed to municipal finance and management improvements in Ukrainian cities. USAID has been facilitative, providing guidance and direction when appropriate, helping to set objectives and overcome bottlenecks. RTI and its long and short-term representatives on MFMM have applied proven strengths and top rate technical knowledge in the administration and implementation of the program. Most significant, however, has been the commitment and courage of the cities in undertaking incredible change at a difficult time of transition. An important aspect of the

MFM project, and process, in Ukraine has been the close involvement with city administrations and municipal sectors, enabling the project to have an impact on and learn a great deal about transitional governments and policy reform. The countless Ukrainians who have worked with MFM, who have believed in a better future and who have sought to improve their environment have ultimate ownership of the Project's successes.

1. Governance And Policy Reform

a. Decentralization

The verticality of the old Soviet system continued to manifest itself in the municipal finance system of Ukraine, where advisors and counterparts struggled with top-down control of budget decision-making. Still, significant if incremental change was made, producing momentum at both the municipal and national levels for greater local autonomy.

i. National

Work at the national level was not identified as a specific goal at the onset of the MFM Project in Ukraine, but emerged as a priority for sustainable change in local governing practices. The two primary goals of MFM's national program were supporting representation of local government at the national level and strengthening the Ukrainian Association of Cities (UAC). MFM technical assistance and training helped the UAC in prioritizing its national agenda and strengthening its relevance to and links with Ukrainian cities. MFM coordinated closely with the Association to provide necessary assistance at the national level on the highly politicized agenda of local self-government. This alliance provided a point of departure for working with other national level policy making entities. Although primary ties were with the UAC, MFM also worked with ministerial and legislative bodies conducting research to support decentralization policy. In Kiev, MFM had the opportunity to significantly impact national legislation concerning local government as well as supporting the Ukraine Association of Cities.

During the Project, Ukraine was at a critical stage in decentralization, rule by law, and local self government. The legal foundation required for the effective functioning of local governments was not yet fully established. The UAC, as representative of municipalities, participated in redrafting sections of the Ukrainian Constitution and laws on local self-government. The UAC also worked, in conjunction with national policy-makers, on the revision of national budgetary policies which affect the ability of local governments to finance municipal activities. The Association's role as a lobbying organization for local government interests was reinforced by working closely with members of the Presidential Administration, Cabinet of Ministers, and the Verkhovna Rada.

Membership in the Association of Cities rose dramatically during the Project, increasing the need for organizational coordination and membership services. In late 1995, smaller municipalities in the Ternopil and Poltava oblasts moved to establish regional branches. Other

oblasts have since followed suit. These organizations, formed under the wing of the UAC, unified regional municipalities, supported horizontal communication, and created an atmosphere for smaller cities and towns in a region to learn from the practices of their neighbors. In order to gain a better understanding of regional issues and differences, an MFMM and UAC sponsored public opinion poll was administered in 10 cities in Eastern Ukraine.

A goal of both MFMM and UAC was to provide services and training for member cities. RTI's expertise and MFMM's experience in local government management and finance training was used to improve training and municipal management skills for city officials. MFMM completed an assessment of in-service training offered in pilot cities, and created a list of courses and workshops provided by other organizations or institutions in order to compile the full range of training available to municipal officials, managers, and staff. The assessment resulted in a base inventory of training, a list of high priority training needs as identified by city officials and staff, and a draft plan of action for the UAC.

Individually, Ukrainian cities faced and continue to face many challenges associated with democratic transition and had limited influence at the national level. As a group speaking with a unified voice, municipalities can have significant input. MFMM worked to strengthen city associations, and cities' ability to organize and have a voice.

ii. Pilot Cities

Decentralization of financial responsibilities to the local level presents municipal leaders with a tremendous challenge. During the Project period, the national government continued to pass responsibilities to the local level without allocating sufficient funds to implement municipal activity mandates. The three MFMM pilot cities in Ukraine responded to this challenge in different yet equally effective ways. All three cities developed management systems, and new computer applications made current and accurate financial and city management information available. The city of **Kharkiv** floated a municipal bond in order to fund public service improvements formerly subsidized by the national government. Funds raised from the first bond were used both to improve the city's central heating system and to purchase badly needed buses for the public transit system. The city plans to perfect the process and issue additional bonds for other municipal improvements in the future. In **Lviv**, MFMM worked with the city's finance department, which set up a task force with subgroups to research and evaluate existing revenues, new revenue, audit functions, computer utilization and budgeting in an attempt to better understand and account for city finances. The task force identified the goal of funding an extended tram line for commuters to better serve the public and generate additional revenue. To better serve the public and generate additional revenue in **Ternopil**, newspaper coverage of a dialogue between oblast and city officials on local finances provided a twofold benefit. First, an increased information flow and improved communications between regional and local leaders helped as different levels of government struggled to identify their responsibilities. Second, Ternopil's Mayor Negoda underscored the necessity of

financial autonomy by initiating a city-level finance office which was outside of the formal national structure.

b. Democratization

Information flow and transparency were the watchwords of MFM's Ukraine program. MFM activities were "real" in that the citizens cared about them and had a stake in their success. For example, MFM convinced some Ukrainian mayors to hold public, televised hearings on city budgets, to convene focus groups, and to publish detailed budget information in newspapers for public consumption - all efforts to boost public input into decision making. Publication of formerly "sensitive" or restricted budgeting material as well as information about municipal departments and staff became commonplace in each of MFM's pilot cities in Ukraine.

Furthermore, the impact of MFM's democratization stretched well beyond the three pilot cities. Municipal management improvements and increased transparency traveled through the UAC member network and more informally by word of mouth from city to city. Sumy, a small city in eastern Ukraine, became MFM's first "roll-out" program city after an enthusiastic embrace of MFM goals as practiced in Kharkiv. Ternopil's transport improvement program (detailed later) also set an example for cities looking to improve their bus systems. Public transport companies in Chernivtsi, Rivne, Kiev, Ivano-Frankivsk, and Lviv planned self-financed joint procurements of refurbished buses and parts following an MFM-sponsored seminar in Ternopil on the transport improvement program. More detailed descriptions of democratic initiatives in MFM pilot cities include:

Ternopil. In June 1995, the city produced the first-ever "Annual Report" for public consumption. The 80 page report, modeled after city reports Mayor Negoda saw while on an MFM-sponsored study tour in the U.S., was published as a special edition of the local evening newspaper and distributed to each household. The report included descriptions and contact information for the city's departments and personnel, details on the city's financial situation, and an organizational chart headed by "the citizens of Ternopil." Following distribution, the mayor held a press conference to involve the citizens in the difficult decisions that had to be made regarding the city's limited resources. Local newspapers also carried articles on the continued debate between oblast and city officials centering on municipal finances and revenue control. This publicized discussion of city finances provided specific information on the budgeting systems along with opposing views of financial control.

The Economic Development Department, created with assistance from MFM, also took up the call for democratization. A goal of the department, described at length under the next section, Economic Development was to provide services and technical assistance for businesses and entrepreneurs to start up or modernize companies in the transitional economy. The Office circulated a paper entitled "*The Principal Tasks of Business Development and*

Effective Measures to Carry Them Out” for public discussion. Feedback from entrepreneurs and citizens alike was requested to better respond to the needs of the people.

Additionally, city officials convened citizen focus groups to discuss municipal issues, such as public service problems, and to address possible resolutions.

Lviv. A Task Force approach taken in Lviv continues to be a success in broadening the decision-making base in the city. Although it took time to gain momentum, the task force process is now accepted and utilized as a tool for problem solving in Lviv. The process included: a planning period, a public hearing to debate task force proposals, completion of a report and/or action plan, submission of the report to the Executive Committee, submission of the report to the City Council, and upon approval of the report, implementation of the plan. Numerous task forces were established to help government face a cross section of critical city needs. An indicator of direct results of improved public involvement was the increase of citizen letters following the hearings in published local newspapers.

MF and the city also took ground-breaking steps toward political transparency and accountability in the design and implementation of Lviv's Integrated Information Handling System (LIHS). The system assisted the Mayor and city staff in tracking performance of the city services. The system was designed, in part, according to feedback provided by the citizens of Lviv at public hearings. Residents of the city were welcome to express their hopes and concerns regarding the computerized system and voice their opinions on LIHS uses, including: logging emergency calls, registering a complaint, or registering an apartment. The system as introduced allows citizens to easily record their requests, comments, and complaints with city departments. At the same time LIHS gives the administration a systematic means to analyze and correct problems.

Kharkiv. From the onset of MF activities in Kharkiv, focus groups were organized to give the mayor knowledge of public impressions. This approach to determine priority concerns was expanded to include public opinion polling in Kharkiv and cities around the region. This effort documented the concerns of the citizens of eastern Ukraine, provided a public forum for discussion of the survey results, and supplied baseline data to measure the effectiveness of ten cities' efforts to resolve citizen concerns. This polling in ten sites provided local government leaders with insight into local and regional concerns.

The intensive use of media by Kharkiv officials led to great strides in both educating and learning from the citizens. Former Mayor Kushnaryov initiated weekly public, televised meetings on the budget, using easy to understand graphics and financial analysis. Moreover, “annual reports” describing the city's budget implementations were published for 1994, 1995, and 1996 in a local newspaper. In order to inform residents of the activities of the city administration as a whole, the mayor also convened weekly press conferences attended by city department heads as well as the city's press secretary. These open forums provided the press and the public with an opportunity to ask questions and communicate directly with the

municipal leaders. Monthly public forums on health care issues in Kharkiv were also televised.

With assistance from MFM, Kharkiv's Director of Health Care and Social Issues, Dr. V.F. Moskalenko, compiled and published a document outlining the city's Social Services programs. The publication, the first of its kind, provided detailed descriptions of the status of social protection programs, including information about who was responsible, how the programs functioned, and where to find further information.

In an unprecedented move, Kharkiv was willing to be a showcase, not only in making transparent the city administration and municipal governing process for citizens to assess, but also by telling the city's story for the nation to view. A video describing Kharkiv's socio-economic situation and how the City officials worked with MFM to overcome the obstacles of transition was completed and aired on national television in early 1996. Former Mayor Kushnaryov as well as MFM advisors were interviewed at length and provided much insight on the program.

It should be noted that these seemingly pedestrian activities are first-time breakthroughs in the democratic life of each of these cities. Together, our efforts and those of our counterparts constitute an impressive fund of experience in democratization and constitute a story that ought to be told.

2. Economic Development

A *sine qua non* of successful reform has always been greater opportunity for citizens to improve their lives; this was why economic development became an important goal under MFM. To appreciate what MFM accomplished toward economic development, it was important to recognize the baseline. Economic development as we know it has not been part of the municipal lexicon in the Former Soviet Union (FSU). National economies were planned, hence, cities had economic planning departments that were charged largely with figuring out how to allocate national subsidies and with collecting data on the capital needs of various departments to be sent up the line for consideration. There was no concept of economic development as a means to attract and stimulate investment, boost employment, and increase local income. One of the most profound and consequential lessons learned by MFM counterparts was the degree to which government can stimulate or, alternatively, stifle private business activity which directly benefits the public sector through the tax base. Through MFM assistance, training, and local initiatives, western-style municipal economic development was successfully introduced.

Ternopil. MFM launched the Economic Development Department in Ternopil, which was patterned after similar departments in U.S. cities. The office operates as a public-private partnership by helping manufacturers improve their products and business practices and by offering assistance to potential new investors. The staff developed a colorful marketing brochure, attracted trade missions, provided some business planning assistance for local

companies, and set itself up to provide services to facilitate the work of potential investors in the city. The Department promoted a Chamber of Commerce and prepared a Ternopil Entrepreneurship Development Plan detailing measures to create an advantageous institutional environment to facilitate the development of entrepreneurship. Additionally, the Economic Development Office pursued funding for the development of a business incubator to provide essential facilities and training for local entrepreneurs. Public outreach was also a goal for the Economic Development staff. Aside from the publication for discussion of a paper on economic development, the office started a column in the local paper “*Business Climate: from Dollars to Hryvna*” and prepared articles and interviews for the local television program “TV Business Club.”

Lviv. An existing Economic Development Office received new impetus from the project. MFM assisted the economic development task force to attract and stimulate market activity, and the tourism task force to complete a plan for stimulating tourism in the city. Tourism was identified as a potential major engine of economic growth for the city. MFM helped identify the steps necessary to realize this potential. Many of the recommendations put forth by the task forces were implemented through the private, member-supported West Ukraine Tourism Association, which was formed with MFM assistance to represent the interests of tourism operators in the eight-oblast region.

MFM also coordinated with other organizations interested in economic development in Lviv. A local van manufacturing plant, with assistance from MFM, completed a business plan. At the recommendation of MFM, local businesses underwrote an effort to utilize the scientific strength of the area to assist local industry (RTI’s experience in North Carolina was of interest as a model). Three business promotion groups were formed: one for the largest enterprises in town; one for newer, small or medium enterprises which could become a business support center for Western Ukraine; and one non-profit organization to support women’s participation in Ukrainian economic reform.

The MFM project served as a point of contact for local entrepreneurs and expatriate groups with particular interest in expanding business contacts. MFM had a role in a 1996 conference, organized by the Center for International Management and Education (CIME), aimed at drawing interest from U.S. companies, local businesses and government to improve the local economy. The conference speakers, including MFM’s long-term advisor in Lviv, presented frank and forthright appraisals of the problems facing Ukraine in molding a democratic, market oriented, civil society capable of taking the place in the world justified by its size and resources.

Kharkiv. An Economic Development Department and a regional business center were established. They promoted business activity, the privatization of municipal services, private entrepreneurship and small business, improving the city’s external economic relationships, and helping the city to raise capital. MFM helped with demonstration activities, including: a municipal lottery; privatization of street cleaning, garbage collection, bus routes, and burial services; introduction of performance monitoring, and a municipal bond issue. MFM assisted

the city Registration Department to streamline business registration by installing a database linked for analytical purposes with other departments. This system allowed for a three-day business registration process, remarkably short by Ukrainian standards.

Taken together, these activities demonstrate a rich array of many real possibilities for stimulating municipal economic development in Ukraine.

3. Finance

As stated earlier, the vertically integrated structure of government still extant in the former Soviet Union was nowhere more apparent than in municipal finance. Financial decisions for all levels of government were still made by the Finance Ministry in the Kiev, and each lower level of government was beholden to the higher level for decisions on revenues and expenditures. This pattern was breaking down as cities sought and were given more responsibilities, but the old structures largely remained in place during this project. In Ukraine, the national government controlled more than 80% of local revenue which was, in turn, dispensed to municipalities by oblast level administrations. Meanwhile, local governments had to shoulder an increasing share of the cost of public services. During the Project period, the system increased the financial burden of localities while resources available to local leaders continued to decrease. MFM helped lay the groundwork for cities to effectively manage their own finances, including setting fees and collecting revenues, making allocations, and conducting finance operations in a modernized, accountable framework.

Kharkiv. A goal of MFM assistance was to improve fiscal budgeting and reporting systems for the city. Important departments including Education and Health adopted improved budget practices with MFM assistance. The Budget Analysis and Transparency (BAT) model was launched as part of the effort to develop a monthly updated executive budget (comprehensive budget system) for the Mayor as a basis for monitoring and policy decision making. MFM also introduced major financial software initiatives, a bank revenue and reconciliation program and a payroll program, that were easily shared with other cities in Ukraine.

In a ground-breaking effort to self-finance city service improvements, Kharkiv, with assistance from MFM, issued its first modern municipal bond. Aside from the primary objective--fundraising--the Kharkiv city administration was concerned with providing a secure local investment opportunity for individuals and businesses. As an incentive for investment, profits were exempted from local taxes. Within the first month of availability, more than 60% of the bonds were sold, raising close to \$500,000 and providing a clear indication of support from the community. The Kharkiv bond experience was an impressive pursuit of local, grassroots financing in support of municipal service delivery, while providing a benefit to citizens and local investors. City officials and citizens alike viewed the bond experience as one new method of resolving some financial problems.

Ternopil. Mayor Negoda focused first on structural reorganization: in a bold move, the Mayor announced plans to establish the city's own finance department. The City administration worked with MFM to utilize "budget formation" principles learned from the finance training offered under the Project in Ternopil. Work was undertaken with the city on detailed analysis of revenues and expenditures to improve budget controls by the city administration. As the Project matured, MFM focused on financial software development, greatly modernizing the approach to budgeting and the city's ability to present meaningful information to interested citizens. Cost reduction and revenue enhancement were also themes: the mayor announced the development of a centralized purchasing system to reduce costs, and MFM helped introduce cost reduction and revenue enhancement into the transport department (see next section).

Lviv. A finance task force was established with MFM assistance. The task force worked with the city government on a demonstration project to finance an extension to the tram system. Five subgroups were set up within the task force to address different issues. Municipal finance specialists provided assistance to the Finance Department and task force in drafting a request for proposals for external auditing of the city's current fiscal position and identifying improvements necessary to meet international accounting standards, as well as compiling information on the city's actual expenditures and revenues and creating spreadsheets and charts. MFM worked continuously with the city and the finance task force to cultivate an understanding of the need to improve the present financial system in Lviv.

4. Municipal Sectors

The broad scope of the MFM project included management and improvement of municipal service sectors. Provision of social services was a responsibility of municipal governments and the focus of much of Ukrainian cities' expenditures. In times of transition, a goal of citizen-responsive local officials was to ease the pain of economic reform for hard pressed urban populations. Capital improvements, formerly subsidized by the national government, were a priority only after the city met basic operational costs, a task that became increasingly difficult as the Ukrainian economy deteriorated during the life of the Project. MFM in Ukraine worked closely with city officials to assist in identifying citizen needs and aiding in solutions and improvements in municipal infrastructure.

a. Transportation

Ternopil. A comprehensive study of the municipal transport sector conducted by MFM subcontractor DGI led to a major and innovative program that increased the number of electric buses in service by nearly one third, improved routing, pricing, regular maintenance schedules with computerized tracking and scheduling, and restructured overall management. The Director of the bus company announced proposals for procurement of additional refurbished buses in 1996. The City found independent sources of funding to continue the process initiated by MFM. Through contacts with the Ternopil Electric Bus Company and

the MFM project in Ternopil, public transportation companies in Chernivtsi, Rivne, Kiev, Ivan-Frankivsk and Lviv planned joint procurements of refurbished buses and parts.

Kharkiv. With assistance from MFM, the city started a demonstration paid parking program and designed a ticketing system to back it up. MFM also assisted the city in privatizing 12 bus routes and 65 buses. Further, the pilot municipal bond issue (mentioned earlier) was primarily geared to assisting the transport sector, and the city planned to purchase minibuses from funds raised in a subsequent bond.

b. Administrative Services

Many of the accomplishments in MFM pilot cities entailed administrative improvements. Each city reviewed the management and organization of selected city offices as a part of its participation in the MFM Project. *Competitive procurement* was introduced in all of the MFM cities as an innovation to most of them. City administrations were uniformly impressed with this process and have begun to make the competitive approach standard. For example, the Mayor of Ternopil launched a city-wide purchasing department that was intended to save much money through consolidated competitive procurement. With assistance from MFM, Ternopil's electric bus company issued a solicitation for bids to develop a specialized computer program and chose a local vendor for the work. The parts and supplies inventory application improved management of the bus company. The Mayor of Lviv has also used the example of MFM to call for competitive bidding in all procurement.

Also in **Ternopil**, the Information and Public Response Department took the initiative to engage two programmer-analysts to design and program an application for registering emergency service calls from citizens. Additionally, the city administration changed the system of allocating funds to departments to increase administrative oversight and accountability.

The city of **Lviv** created a central dispatch service to respond to citizen calls for infrastructure repairs, replacing a former method which maintained 16 individual and autonomous response subdivisions. This central response system is a part of the Integrated Information Handling System. The city administration, moving towards more professional management, also eliminated district councils and created six functional departments each headed by municipal administrators rather than deputy mayors.

In **Kharkiv** the personnel system was transformed to introduce competitive hiring, personnel profiles, probation periods, a personnel database, and an automated payroll system, plus introduction of these innovations into the raions and coordination between the raions and city on personnel management. Specific software was developed and applied to help facilitate these systems. The automated personnel system is complete and now used by the Personnel Department of the City and the Council Secretariat for initial processing and analysis of personnel information.

c. Social Services

In **Kharkiv** MFM worked with the departments of Health and Education to move them to a unified budget, reducing costs through competitive procurement, and intensifying public relations and citizen input. MFM assisted in promoting cost control of health care expenditures by proposing direct streamlined contracts with health care suppliers. With assistance from MFM, the Director of Health Care and Social Issues, Dr. V.F. Moskalenko, compiled and published a document outlining the city's Social Services programs. The publication provided detailed descriptions of the status of social protection programs, including information about who was responsible and how the programs functioned.

Ternopil institutionalized a "one stop" payment program for citizens to pay communal services fees. The intended results of this program included an increase in collection rates and a simpler process for citizens and city staff alike.

d. Communications

Improved communications, while not an explicitly stated goal of the project, were a consistent accomplishment of MFM. Our customers' assessments (see Performance Management, below) indicated that a key MFM benefit was jump starting interdepartmental communications where little or none existed. This meant that raions may talk to each other and to the city departments. There was better communication also between city and oblast levels (for example, between the finance departments and the state tax directorates).

Improvements in communications were accomplished through a variety of measures. First, many of the training programs and study tours included people from different levels and departments of local government, giving them a common experience and opening dialogue among them. Second, software and hardware networked elements of government that never had shared information, shared it badly, and/or were reluctant to share. Also, in some cities, such as Kharkiv and Lviv, improved PBX phone systems were installed which produced quantum improvements in communications and reduced central phone exchange expenses. Finally, RTI was consistent about preaching "information sharing" as a core element of good municipal management in all of its training and consulting.

e. Sanitation Improvements

Lviv. MFM worked with the city in setting up two task forces concerned with sanitation improvements in the city. The Water '98 task force worked with a host of donor organizations and contractors on refurbishing the water supply system so citizens would receive water 24 hours a day 7 days a week. Lviv also had a task force focused on refuse disposal, and adopted some modern European recycling and reuse technology. The task force also explored using coal waste material from the Chervonograd coal mine in a project addressing refuse incineration, electrical generation and reduction of coal mine pollution.

MFM

Ternopil. City officials executed a long term agreement with a German refuse pick up and disposal company to ensure cleaner streets and better sanitation.

5. Performance Management

MFM took seriously USAID's guidance to monitor the results and impact of the MFM project. In so doing, some tried and true approaches were applied and new approaches introduced. A *performance monitoring matrix* was completed for each project city (see tables that follow). These matrices tracked workplan elements and attempted to indicate impact. Where feasible, we have tried to introduce performance monitoring to local staff and counterparts for use as a management tool. RTI completed comprehensive assessments in each city, an innovative part of which are *customer assessments*. Introduced under MFM, customer assessments were completed in Lviv, Kharkiv and Ternopil in early 1996.

Quarterly reporting followed USAID guidelines and was formatted to describe progress toward achievement of workplan goals in each city. However, the MFM project had significant impact in a variety of ways that were difficult to fully capture in matrix format.

Another report format was also required to inform specific audiences on the success of the project. To meet this need we initiated a series called the *MFM Current Impact Series*. These press release-like pieces were intended to capture breakthroughs or achievements that resulted from specific MFM strategies, and either had or will have a significant long-term impact. The statements form an important part of the MFM legacy and helped not only to sell the program but to effectively spread its benefits.

Finally, we had to go beyond performance monitoring to the concept of performance management. A *performance management seminar*, designed by RTI staff, was presented in Kharkiv. Staff from the other cities attended the 3 day workshop and feedback on the seminar was quite positive. Many of these concepts were new to Ukraine and will take time and repetition to become imbedded.

NATIONAL		
Objective Served	Core Activity	Results

1,2,4	<p><i>Ukraine Association of Cities (UAC). Help build the association into a powerful force for representation of local government interests at the national level.</i></p>	<ul style="list-style-type: none"> · With MFM's help, the former Association of Mayors transformed itself into the Ukrainian Association of Cities, moved to Kiev, hired a full-time professional executive director, and developed a communications, lobbying, and training agenda. · Over 170 Ukrainian cities became members of the Association by the end of the MFM Project (compared with 56 at the time the UAC was formed). · The UAC established a regional form of membership for smaller cities and towns referred to as "oblast associations". · The UAC professional staff and Board worked extensively with the Presidential administration, the Cabinet of Ministers and committees of the Verkhovna Rada to successfully advocate local governments' positions on constitutional and statutory issues, including provisions of Ukraine's new constitution. The constitution as adopted, and local government law as revised, are significantly more decentralist than the former. <p>ASSESSMENT: Individually cities face many challenges associated with democratic transition and have limited influence at the national level. As a group speaking with a unified voice, the UAC has significant impact at the national level. MFM's hand-in-glove partnership with the UAC has helped create the voice we sought for stronger local authority. The UAC, created with MFM's assistance on the basis of the former Association of Mayors, was cited as the most effective NGO in Ukraine. On the other hand, the UAC remains closely associated with the executive branch of local government, and needs to be broadened to include local councils more effectively.</p>
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2,3,4	<p><i>Improve training and municipal management skills for city officials through the UAC.</i></p> <p>Assist UAC in developing training capacity and membership services.</p>	<ul style="list-style-type: none"> · MFM staff in Kiev provided technical assistance to UAC in focusing on membership services. The Association decided what type of services and facilities it wants to provide for members and work continues in coordination of these goals. · Communication to members and others about city management, communication among cities to share experiences, and a forum for common discussion of problems was aided by publication of a monthly newsletter, "Narod i Vlada," which was often dedicated to particular issues of current concern (e.g. land reform, budget and finance, etc.) · With MFM's help, UAC conducted an assessment of in-service municipal management training. RTI experts conducted an inventory of existing in-service training for municipal leaders and staff, evaluated training needs, and assessed in-service training capacity of institutions offering, or potentially able to offer, appropriate training. <p>ASSESSMENT: The UAC was eager to offer membership services that strengthen local leaders and municipal staff. The UAC recognized that in-service training plays an important role in the education of city officials. MFM worked with the UAC to strengthen its membership and expand the services offered.</p>
1,2,4	<p><i>Local Government legislation</i></p> <p>Provide technical assistance in creating a legal foundation for local government</p>	<p>UAC and MFM staff were involved in a variety of intergovernmental policy making activities, including panel discussions, meetings, and lobbying at the Supreme Rada.</p> <p>ASSESSMENT: The UAC, with assistance from MFM, became successfully engaged in legislative matters at the national level. The Association has a difficult role in representing local interests at the national level while maintaining strong ties to the grassroots. Since the end of the MFM project, significant new opportunities have presented themselves, with former Kharkiv Mayor Kushnaryov becoming Chief of Staff to the President, and former UAC President Pustovoitenko becoming Prime Minister.</p>

Key to Objectives:

- (1) Finance and management
- (2) Democratization
- (3) Building basis for hope
- (4) Institutionalization and sustainability

MFM

Kharkiv. The MFM program in Kharkiv helped the City develop the following mission statement:

We believe that performance management is the key to improved service delivery. Further, we believe that, for Kharkiv, the link between performance management and improved service delivery is information technology.

This statement was developed and agreed to in an RTI/MFM sponsored performance management workshop held at the outset of the project and attended by city officials and administrators. It was endorsed by the Mayor and became the theme of the program. Given this performance goal, the objective of the Kharkiv program was refined to three specific objectives.

- Improve the city's use of performance management techniques.
- Improve the city's use of information technology.
- Improve the city's delivery of services.

A fourth objective was later added to reflect the turns the project took in response to the economic needs of the city:

- Improve the city's ability to attract investment and foster economic activity.

KHARKIV		
Objective Served	Core Activity	Results
1	<i>Local development of application software.</i>	<ul style="list-style-type: none">· Extensive development of applications software by local providers enabled the software to be developed at attractive prices, adapted to local conditions, and in less time than would have been possible by relying primarily on expatriate programmers.· Applications software programs developed in Kharkiv were indexed into a directory for distribution and use in other cities. <p>ASSESSMENT: Ukrainian specialists in software development are highly skilled, though they require assistance with systems analysis and defining objectives. Software applications development in Kharkiv was an overwhelming success.</p>

KHARKIV		
Objective Served	Core Activity	Results

1,4	<p><i>Development and use of an executive information system (EIS). This includes: (1) creation of a unified data management system for the city and raion registration departments; (2) development of an EIS budget for the city administration; and (3) improvement of project designs and proposals presented by city officials.</i></p>	<ul style="list-style-type: none"> · MFM technical assistance created the Budget Analysis and Transparency (BAT) model to generate data and graphics for presentation to the City Council and the public. The Mayor used the output from this model to share financial data on TV and in newspapers to a degree that was completely without precedent in Ukraine. This model was shared with other MFM cities, notably in Russia, and late in the MFM Project was re-imported into Ukraine with heavy modifications as the Financial Analysis Model (FAM). · MFM staff worked closely with the city registration department to streamline the business registration process. Raions within the city transferred registration information to the new city-wide business registration system. New business in all of the city's 9 raions used the new registration procedures to enter businesses into the City's database. · MFM created a new computerized budget system for the city, consisting of a number of programs including a payroll program and a bank reconciliation program. The budget revenue control application gave the Executive Committee Principal Directorate for Budget and Finance increased control over previously undisciplined spending by individual departments.. · A reorganization plan for the Information Department was developed and implemented. · A information management application was developed and implemented. <p>ASSESSMENT: Systems progress and effectiveness were directly linked to automated data processing (ADP) procurement and installation. The prolonged multi-level USAID-mandated hardware procurement process required under this contract, together with very long turnarounds for approvals, meant real delays in effectiveness.</p>
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1,4	<i>Development and installation of a management information system for the city administration. This included: (1) Creation of a staff computer training program; and (2) establishment of data links among departments, between city departments and raions and among raions.</i>	<ul style="list-style-type: none"> · After a comprehensive needs assessment and the writing of an ADP plan with the assistance of MFM technical assistance, the city used a competitive bidding process to select vendors for computer hardware, software, and improved communications systems. · The City, with MFM support, created a computer training center for City staff. Over 350 people received computer training in Kharkiv. Directors of the Health, Finance, and City Press Departments as well as the Mayor's Secretariat Chief received specialized training. · Computer training classes were offered in Sumy as an outreach and replication effort of the Kharkiv program. · Training materials were prepared in Russian and Ukrainian and were available for use in other cities. <p>ASSESSMENT: The strongest point of the Kharkiv information systems effort was the extensive and highly developed computer training program.</p>
1,2,4	<i>Creation of a city automated personnel system.</i>	<ul style="list-style-type: none"> · An automated personnel system was created and used for processing and analysis of personnel information. The personnel system included (1) competitive hiring, (2) personnel profiles, (3) an automated data base, (4) written job descriptions, (5) newspaper advertising for openings, (6) a probation period for new hires. <p>ASSESSMENT: This system significantly increased the City's ability to track human resources information, and professionalized the hiring process in Kharkiv, improving both quality and perceived fairness.</p>

2,3,4	<i>Democratization and institutionalization.</i>	<ul style="list-style-type: none"> · Citizen focus groups were introduced and became a regular management tool for the city. · At MFMM's urging, Mayor Kushnaryov held televised sessions on the City's budget with citizen call-in questions. · MFMM conducted public opinion polling in Eastern Ukraine. This exercise documented the concerns of citizens of Eastern Ukraine, provided a public forum for discussion of the survey results and supplied baseline data to measure the effectiveness of ten cities' efforts to resolve citizen concerns. Polling in ten sites provided local governments with insight into local, regional and potentially national concerns. The questionnaires were distributed to approximately 3,000 people in the 10 cities. · With assistance from MFMM, the Director of Health Care and Social Issues, compiled and published a document outlining the city's Social Services programs. The publication, the first of its kind, provided detailed descriptions of the status of social protection programs. · Former Mayor Kushnaryov conducted weekly television addresses and press conferences attended by City Department Heads. These open fora provided the press and the public with an opportunity to question and communicate directly with the municipal leadership. · A video describing Kharkiv's socio-economic situation and how the City officials worked with MFMM to overcome the obstacles of transition was completed and aired on national television. <p>ASSESSMENT: Great inroads in transparency and institutionalization of MFMM goals were achieved in Kharkiv. City officials developed a proprietary approach to city management and services while keeping the citizens involved and informed.</p>
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1,4	<p><i>Performance Monitoring and Evaluation (PME) System.</i> The PME system was used by resident advisors to: 1) track progress toward workplan and project objectives, 2) provide systematic reporting of performance data, and 3) develop and institutionalize the concept of performance management in pilot cities.</p>	<ul style="list-style-type: none"> · Performance monitoring assessment and training was a key part of the MFM project management in Kharkiv, and these skills were transferred to Ukrainian counterparts for the city's own use. · All of RTT's resident advisors in Ukraine agreed on a common PME strategy and reporting format. The advisors generated two tools: (1) a performance monitoring tracker for reporting on workplan activities, and (2) a Performance Results matrix for reporting on impacts of project activities on Project objectives. · A Performance Monitoring assessment was completed and featured a "customer assessment." Below are some of the findings: <p><i>Transparency:</i></p> <ul style="list-style-type: none"> · first ever televised municipal budget presentation and interactive discussion between mayor and citizens · dissemination of information to citizens through press releases, press conferences, detailed reports and participation of mass media in city meetings · initiation of mass media training and accreditation · monthly information analysis and reporting by press office of varied perspectives on current problems. <p><i>Accountability:</i></p> <ul style="list-style-type: none"> · personnel database capable of being updated to comply with legal requirements at the national level. <p><i>Efficiency:</i></p> <ul style="list-style-type: none"> · use of competitive bidding for purchasing computer hardware, customized database software, health care supplies; allocation of contracts for private bus service and public lottery · 3-day process for new business registration in Kharkiv compared to more than a week in other Ukrainian cities · cost control of health care expenditures through direct, streamlined contracts with health care suppliers. <p><i>Effectiveness:</i></p> <ul style="list-style-type: none"> · unified business registration database for tracking and coordinating business activity across districts · use of municipal bond issue to develop own-source revenues · increase in collection of local taxes from 2% of total revenues in 1994 to 4% in 1995 <p><i>Promotion of Local Economic Development:</i></p> <ul style="list-style-type: none"> · privatization of 12 bus routes and 65 buses · creation of city economic development department with 20 employees · creation of regional business center and initiation of information exchange with sister cities <p><i>Timely Access to Information:</i></p> <ul style="list-style-type: none"> · initiation of the collection, standardization and access on a daily basis to school finance and attendance data · access within minutes to information on Kharkov business activity by city officials and other Ukrainian cities.
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Lviv. The MFM project in Lviv focused on three areas, namely:

- Improvement of the city administration and its management (especially relating to public services).
- Increased citizen access to the city administration.
- Improvement of the well-being of citizens by improving the economic opportunity, encouraging private enterprise, and capitalizing on the city's assets to increase the tourism industry.

The first two objectives were achieved. The approach MFM took with the administration in Lviv was to institute a task force process which drew on the best of the city's talent, involved citizens and key decision makers in the process, and dramatically improved the city's ability to attract resources. The matrix below shows some specifics. This participatory approach was the core of the MFM project in Lviv and has made a major change in the way the city was managed. The city has applied the task force approach to a wide variety of problems.

LVIV		
Objective Served	Core Activity	Results
1,2,3	<i>Broadening the decision making basis in the city.</i> A focal point was the introduction, development and utilization of task forces with the goals of bettering the city management, services to the citizens and the economic situation in Lviv.	<ul style="list-style-type: none"> · The Task Force approach taken in Lviv took time to gain momentum, but became accepted and utilized as a basic tool for problem solving in Lviv. The process included: planning period, public hearing, completion of a report and or action plan, submission of the report to the Executive Committee, submission of the report to the City Council, and, upon approval of the report, implementation of the plan. Seven task forces were established, including Water 98, Refuse Disposal, and Tourism. · The City Administration determined that all new contracts for services or equipment will be competitively bid, reflecting MFM's impact on the day to day management and administration of the city. <p>ASSESSMENT: The task force approach to problem-solving continued to be an effective management tool in Lviv. This process provided the city with control over improvements in different areas of municipal management because every step of the task force process was reviewed and approved by different sectors of society.</p>

LVIV		
Objective Served	Core Activity	Results
1,2	<i>Development and installation of a Lviv Integrated Information Handling System (LIHS).</i>	<ul style="list-style-type: none"> · Installation of new computer equipment and software as part of the LIHS allowed the city to: (1) create a data bank of information about City's housing stock and applicants for housing; and (2) create a data base of information for decision makers to secure current and relevant management and financial information · Installation of a new PBX system, allowed for better communications between city offices and avoided the per call charge for using the central city exchange, resulting in an estimated saving of \$50,000 each year for the city administration. · As of the end of the Project, the City was investigating how the PBX system might work to relieve congestion in the existing telephone system serving the central city. Lack of decent telephone service for both voice and data had been an impediment to business development and intercity communications. · Essential to the LIHS was a wide ranging review and modification of the way things were done throughout the city government. This gave the MFM Project an opportunity to have an impact beyond simply providing equipment. <p>ASSESSMENT: As in Kharkiv, equipment procurement took more time than might have been desirable. Unlike Kharkiv, there were serious vendor problems in Lviv. The winning bidder on the computer hardware and software, CDV Apple, proved unable to deliver on its commitments in a timely fashion. From the City's perspective, it was not until some equipment was actually delivered that the City began modifications needed to City Hall to accommodate the equipment.</p>

LVIV		
Objective Served	Core Activity	Results
1,3	<i>Economic Development to increase employment, generate revenue and attract investment.</i>	<ul style="list-style-type: none"> With technical assistance from MFM advisors, the city's tourism task force generated a thoughtful report detailing steps to have been taken to improve tourist trade in Lviv. Funding from the City for some of the items was difficult to find in the current economic situation, but low cost efforts proceeded, including preparation of updated city guide information and translation of tourism materials. MFM served as a resource to U.S. and Ukrainian entrepreneurs seeking international partnerships. MFM coordinated with other entities interested in economic development in the region. A local van manufacturing plant, with assistance from MFM, completed a business plan. MFM helped organize a Center for International Management and Education (CIME) conference, aimed at drawing interest from American companies, and the involvement of local businesses and government to improve the local economy. At the recommendation of MFM, local businesses underwrote an effort to utilize the scientific strength of the area to assist local industry.
1,3	<i>City services improvement, including: water and refuse disposal</i>	<ul style="list-style-type: none"> The task force on refuse disposal wrote a report based on information gained at a month-long conference in Sweden and demonstrated various refuse disposal techniques practiced in Sweden. The report set out a series of steps to have been taken by individuals, businesses, and institutions to counter pollution problems. The task force explored possible use of coal waste materials in a project addressing refuse incineration, and electrical generation/reduction of coal mine pollution hazards. The Water '98 task force wrote a report that guided the City in its dealings with foreign donors and lenders. <p>ASSESSMENT: Improving city services was a primary goal for the city administration. The task force project channeled this interest into an organized planning process, replacing the ad hoc advocacy of individual projects that had existed prior to the task force structure.</p>

LVIV		
Objective Served	Core Activity	Results
1,4	<i>Performance Monitoring and Evaluation (PME) System.</i> The PME system was used by resident advisors to: 1) track progress toward workplan and project objectives, 2) provide systematic reporting of performance data, and 3) develop and institutionalize the concept of performance management in pilot cities.	<ul style="list-style-type: none"> · RTI's advisors used a common PME strategy and reporting format, including two tools: (1) a performance tracker for reporting on workplan activities, and (2) a Performance Results matrix for reporting on impacts on objectives. · A Performance Monitoring assessment was completed and featured a "customer assessment." Below are some of the findings. <p><i>Transparency:</i></p> <ul style="list-style-type: none"> · dissemination of information to citizens through public hearings, newspapers, press conferences, and TV interviews with heads of project task forces · assignment of employee in water inspection office to maintain contact with citizens <p><i>Accountability:</i></p> <ul style="list-style-type: none"> · creation of problem-solving process which included broad-based task forces (water, refuse disposal, tourism, information management, and revenue generation) and open public hearings <p><i>Efficiency:</i></p> <ul style="list-style-type: none"> · creation of central dispatcher to respond to citizen calls for infrastructure repair compared to former case of 16 separate systems · reallocation of refuse collection from state enterprise to 3 private companies, resulting in an increase in competition and overall quality of service <p><i>Effectiveness:</i></p> <ul style="list-style-type: none"> · creation of consultative council of heads of project task forces, Director of Institute of Management · initiation of experiment with 2 year housing bonds · elimination of district councils and creation of 6 functional departments within the city headed by administrators rather than deputy mayors <p><i>Promotion of Local Economic Development:</i></p> <ul style="list-style-type: none"> · inaugural registration of Women in Business Association as non-profit with mission to support women's participation in Ukrainian economic reform · approval by executive committee of allocation of 10% of hotel/motel tax to special tourism fund <p><i>Timely Access to Information:</i></p> <ul style="list-style-type: none"> · MFMM advisory committee served as information liaison between project task forces and policy makers · creation of an information handling system to improve operations and responsiveness to citizens <p><i>Citizen Participation:</i></p> <ul style="list-style-type: none"> · public hearings on water, tourism, and refuse disposal by executive committee in deliberations regarding approval and funding · increase in citizen letters in newspapers

Ternopil. In Ternopil, the city adopted a mission statement as follows:

The Ternopil City administration aims to create the best living conditions and deliver the highest quality public services to the citizens of the city.

This statement resulted from a performance management workshop sponsored by RTI/MF, and became the basis for the decision to focus the MF Ternopil project on three areas:

- Improvement of municipal management.
- Economic development.
- Public services improvement.

TERNOPIL		
Objective Served	Core Activity	Results

1,2	<p><i>Improvement of Municipal Management.</i> Included: (1) devise alternative structure for city; (2) modernize city budget; (3) explore capital budgeting and municipal borrowing; (4) apply spreadsheet techniques to budget preparation; (5) improve communication and management information; and (6) develop an employee training program.</p>	<ul style="list-style-type: none"> · With MFM assistance, the City Administration publicized comprehensive information on the city's organization, services, budget, and contact information for city officials. · A comprehensive MIS needs assessment was undertaken by the Project and the City Administration, resulting in an ADP plan. · Computer hardware bought for Ternopil as a part of the city's "starter set" was assigned to priority departments of the city, thereby significantly upgrading the city's capacity to program applications and to use packaged software (word processing and spreadsheets). · The City's Information and Public Response Department engaged programmers to design and program an application for registering emergency service calls from citizens. City officials traveled to Lviv to look at the PBX and emergency dispatch system implemented there. Ternopil officials concluded they should concentrate on a dispatch system and explored use of switching units as a way to get maximum impact from communications expenditures. · With assistance from MFM, the Electric Bus Company issued a solicitation for bids to develop a specialized computer program and chose a local vendor for the work. · City officials and MFM staff traveled to Kharkiv to learn of the computer applications and uses in numerous city departments. · MFM worked with the Computer Programming Center staff to assess and continually update information on computer needs and to create a competitive process for computer procurement. · MFM and the City Administration developed computer training courses which trained over 50 people from the city staff.
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1,3,4	<p><i>Economic Development.</i> Included: (1) creating an economic development office; (2) establishing an economic development commission; and (3) determining feasibility of an economic development authority.</p>	<ul style="list-style-type: none"> · Following technical assistance from RTI's economic development consultants, the City created an Economic Development Office and a broad-based Economic Development Commission. · Staff of the Economic Development Office traveled to the US and Canada on a specialized training program in November 1995. They returned with a plan of action and practical steps to create better economic conditions in Ternopil, including: creating a small business incubator; offering extensive business training; establishing better ties with foreign companies through trade missions to and from Ukraine; targeting and marketing specific areas of production for potential foreign investment and joint ventures; and researching Ternopil's potential for an industrial park. · Ternopil's Economic Development Office assisted the Trade Facilitation Office of Canada in organizing a trade mission for importers to explore potential opportunities in western Ukraine. · The city created a first-ever promotional brochure designed to draw investment and tourism. <p>ASSESSMENT: The Economic Development Office became a respected entity and helped shape community-wide consensus on economic development activities. The City's Economic Development Director, Viktor Lytvynchuk, was promoted to the Oblast level, where he now heads regional economic development efforts.</p>
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1,3	<p><i>Public Services improvement.</i> Included: (1) assessment and implementation of management improvements in routing, operators, fee collection, maintenance, etc.; (2) increase in revenue from user fees earmarked for spare parts fund; (3) public information campaign to increase fee collection rate; (4) increase in rolling stock through one time infusion of funds for spare parts, new and rehabilitated buses; and (5) service planning for maintenance, rehabilitation and expansion.</p>	<ul style="list-style-type: none"> · MFM transport experts visited Ternopil and prepared a report outlining proposed equipment and management improvements. · MFM assisted the city in refurbishing a major portion of its electric bus fleet using USAID funds to repair and refurbish buses, increasing by 50% the City's available fleet, while increasing fare collection, reducing operating costs, and creating highly visible service improvements. · Subsequently, the electric bus company purchased, with its own funds, three additional remodeled buses from the Czech firm that had refurbished the city's old buses. · Ternopil's transport program set an example for other cities interested in refurbishing buses and improving municipal transport. MFM sponsored a seminar for bus companies in November 1995 that highlighted the Ternopil program. · In December 1996 a delegation from Ternopil traveled to Poland to learn about passenger ticketing and control technology used in Eastern Europe. The devices seen in Poland could better record information on fares and ridership, but may not prevent fare avoidance in Ukraine. · After a competitive process, the electric bus company contracted with a private firm to develop bus parts inventory and repair application software in order to better manage and track the buses and maintenance. · In cooperation with PADCO, RTI helped the GOU develop computerized systems for implementation of the targeted housing subsidy program. <p>ASSESSMENT: The transport project was a glowing success and served as the basis for RTI's subsequent Urban Transport Project in nine Ukrainian cities. Other cities showed great interest in the program that not only improved city services but also eased the pain of transition for the populace. Cooperative work with PADCO on the design of systems for the housing subsidy program was highly productive, and formed the basis for that program's current nationwide computerized systems.</p>
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1,4	<p><i>Performance Monitoring and Evaluation (PME) System.</i> The PME system was used by resident advisors to: 1) track progress toward workplan and project objectives, 2) provide systematic reporting of performance data, and 3) develop and institutionalize the concept of performance management in pilot cities.</p>	<ul style="list-style-type: none"> · All of RTI's resident advisors in Ukraine used a common PME strategy and reporting format, including two tools: (1) a performance monitoring tracker for reporting on workplan activities, and (2) a Performance Results matrix for reporting on impacts of project activities on Project objectives. · a Performance Monitoring assessment was completed and featured a "customer assessment." Below are some of the findings. <p><i>Transparency:</i></p> <ul style="list-style-type: none"> · publishing the city budget in the local newspaper to improve citizen access to budget information <p><i>Efficiency:</i></p> <ul style="list-style-type: none"> · change in structure of management to increase communication among departments and promote greater efficiency · institution of "one stop" citizen payment of communal service bills · computerization of communal services information processes <p><i>Effectiveness:</i></p> <ul style="list-style-type: none"> · change in system of allocating funds to departments to increase administrative oversight and accountability · transformation of attitude of managers and staff towards use of computers and modern management practices in Ternopil · development of opportunities to apply "budget formation" principles (as appropriate to Ukrainian law) gained from MFM municipal finance workshop <p><i>Promotion of Local Economic Development:</i></p> <ul style="list-style-type: none"> · establishment of office of economic development · creation and initiation of city economic development plan · hosting of trade missions from U.S. and Canada <p><i>Timely Access to Information:</i></p> <ul style="list-style-type: none"> · centralized computer system to speed communication among departments · detailed analysis of revenues and expenditures to improve budget controls by city administration <p><i>Citizen Participation:</i></p> <ul style="list-style-type: none"> · first citizen focus groups in the city to discuss municipal services and ways to improve them
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CENTRAL ASIA PROGRAM

The program in Central Asia, managed by the Mission in Almaty, involved the two smallest cities in MFMM -- Atyrau in Kazakhstan (Pop. 150,000) and Karakol in Kyrgyzstan (Pop. 70,000). Atyrau was selected for its potential of becoming an oil industry hub in the Caspian Basin and its interest in making the kind of reforms promoted by MFMM. Karakol was selected as one of the most progressive of the cities in Kyrgyzstan and the only city headed by a woman mayor. The program in Central Asia began in November 1994. Based on project reviews in the spring of 1996, both projects were extended to November, 1996 to provide emphasis on budget and finance reforms and in Atyrau, the implementation of the Long Range Development strategy.

The broad themes of the Atyrau project were planning and preparation to function as a decentralized city responsible for its own future as a major petroleum service center. The basic synergy in Atyrau was generated through self-determined initiatives of the government and its citizens to plan, develop strategies and implement actions to foster economic opportunities and a higher quality of life. Given the highly centralized structure of the Kazakhstan Republic and Office of the President which appoints the Governors who in turn appoint mayors and control local government budgets, the actions developed in the workplan focused on initiative of the local government public/private partnerships and non-governmental organizations to improve municipal services, rebuild infrastructure, foster economic development and form NGO social and commercial programs. While the basic thrusts were directed at the local level, the workplan called for coordination with efforts at the national level in fiscal reform, strengthening local governments, and expanded roles of non-governmental organizations. The supportive efforts, however, were limited by distance, lack of transportation and remoteness of Atyrau.

The MFMM theme in Karakol was to create a democratized form of city government and to transform the economy in to one with the potential to be productive in a free-market environment. Activities fell under two categories: municipal government and economic development. The good standing of the mayor with the President of the country afforded MFMM unique opportunities to impact the national level and to influence government reform countrywide. The MFMM program in Karakol took advantage of this situation and conducted pioneering work at the national level, much of it based on progress in Karakol. For example, the President in praising the city's budget and MFMM's financial management training programs, requested that MFMM conduct financial management training for all of the country's 150 mayors, council chairs and finance directors.

The sections below discuss the activities of MFMM in Atyrau and Karakol. The project owes much of the success and sustainability to the dedication of project staff and city counterparts. The activities are reported in the following categories:

- Governance and Policy Reform
- Economic Development

- Finance

1. Governance and Policy Reform

Decentralization

Decentralization of government was a major goal of the MFM program in Kyrgyzstan and Kazakhstan. The top-down system legacy of the Soviet Union is dying hard, as witnessed by the continuing remnants of absolute power exercised by oblast and central governments over local raion and city governments. This was particularly evident where the constitution gave the office of the elected President a strong hand in the governments at the Oblast, raion, and municipalities and control of their fiscal affairs. However, progress was made in educating increasingly enthusiastic local and national leaders on the importance of delegating political power from the center to municipal representatives of citizens in order to establish representative, legitimate, innovative and stable governments at the local level. The commitment of Kyrgyz President Askar Akayev to local self government reform was an inspiration to Kyrgyz leaders at all levels and made the task of providing technical assistance by USAID contractors much easier.

In conjunction with the local self government education process, MFM study tours to U.S. cities for both Atyrau and Karakol administrative department officials and for elected officials, including the Karakol City Council, were arranged. U.S. systems for elected local government, finance, planning, economic development and tourism were presented by U.S. city and state officials. The participants came away with a good appreciation of how democratic government functioned at the local level in the U.S. At the conclusion of the city presentations, enthusiastic round-table discussions were held in Washington, D.C. on how to implement local government and economic reforms. Participants from Karakol instituted Sister City arrangements with Asheville, NC and with Northampton, MA with resultant exchanges of information helpful to the reform process. The Asheville connection also resulted in a student exchange program between the two cities for summer 1996.

MFM consultants worked closely with gional and federal officials to assist with: the design of a local self government law for consideration by Parliament; preparation of a presidential decree signed by the President incorporating many of the local self government principles outlined by MFM and other USAID contractors; and a city charter which was democratically prepared by a Karakol City Charter Commission for consideration by the City Council, the Mayor and public referendum. As this educational process evolved, the RTI long term advisor was appointed advisor to the President on local self government matters and thereby given access to the Local Self Government Commission and the President's Local Self Government Committee as well as oblast and municipal leaders.

One of the direct benefits of the study tours evolved from a discussion in the U.S. by Kyrgyz officials on how to implement local self government. The current Kyrgyz system's federal ministries and governors all stand to lose influence and power if local self government

initiatives are implemented. To cope with this well-known opposition, a working strategy was agreed upon by the participants. The strategy, which received major input from the President of the Issyk-Kul Oblast Legislature and the Deputy Director of the President's Organization Department, was to implement a pilot local self government program in Karakol. The pilot program for just the one city would be less threatening to the Ministries and to the Governors and therefore would have the best chance of success. The USAID Mission in Almaty and President Akayev agreed to the model approach for Karakol and an implementation plan was prepared by the USAID mission in Almaty.

As a result, a Kyrgyz local self government law, a presidential decree on local self government, and a charter for Karakol were drafted. At USAID's direction, Barents, the U.S. Treasury, and MFM have participated in this process. A Presidential decree on local self government was issued which incorporated many of the democratic ideas of U.S. consultants from MFM and the U.S. Treasury. The Karakol Charter Commission drafted Karakol's first city charter, which was reviewed by Karakol's new mayor, Kacim Ismanov. The charter will be submitted to the City Council, which will vote to put it to a referendum in the near future. The democratic reform process evolved at the same time that draft local self government laws—for consideration by the Kyrgyz Parliament—were being prepared by the President's Commission on Local Self Government and the Committee on Local Self Government.

In an unprecedented decentralization initiative in Kyrgyzstan, the national Treasury approved the establishment of a Karakol City Treasury -- a function theretofore the exclusive province of the Oblast. This initiative was recommended by the MFM advisor and pursued by the Mayor, who sent a request letter to the National Treasury supported by amicus notes from RTI advisor and the USAID officials. Within 2 days, the approval came down and now the city has the proper documentation establishing its own Treasury. Other than the decentralization significance, having its own Treasury produced key benefits for the city:

- The mayor could release money to the Oblast rather than the other way around.
- The city can get its full share of revenues whereas in past, the City would be shortchanged if revenues fell short of projections.
- Will result in better management of off budget items, like share in transport fees that pay for fuel and maintenance, all of which channel through the Treasury.
- Eliminate delays city encountered in obtaining revenues from Oblast Treasury.
- Should create incentives for better cooperation between city and Oblast and eliminate manual transactions since city was automated.
- Increase citizen awareness of Treasury functions and confidence in city administration.

While the 2-year period of the project in Atyrau did not provide a window to make a concerted effort to initiate structural changes in intergovernmental relations, there was the opportunity to strengthen capacities at the local level and to link with longer term structural reform programs being carried out under USAID and World Bank projects. There was an expressed desire by government leaders to strengthen the independence of government administration and fiscal management. This was the case for both the Atyrau Municipality's relationship with the oblast, and for the oblast's relationship with the Republic. The Mayor of Atyrau strongly pressed for greater authority at the Municipal level. The Governor supported

more independence at the Oblast level and in principal (more than in actuality) wanted a stronger municipal administration.

The theme “Now it is time for Atyrau to take its destiny in its own hands” was an expressed goal which grew out of the Long Range Development Strategy (LRDS) formulation and adoption. The LRDS was a comprehensive approach to implement and finance the goals of the City and Oblast in concert with the private sector, particularly the nascent oil industry. The theme was used in Almaty during a presentation to the Republic government and was the last slide of a video presentation which was shown on TV and at a national meeting in Almaty of oblast and raion heads. There President Nazabayev praised the actions of Atyrau to adopt a long range development strategy and urged other cities and raions to do likewise.

The strategy involved development plans for physical growth, infrastructure, municipal services, and industrial and economic development.

The Governor realized that the LRDS financial strategy made goals attainable in the minds of the leaders and demonstrated how some \$540 million (US) of improvements could be financed from resources generated within Atyrau Oblast without competing with future operating budgets. As a result he was prompted to say, “Lets g.” After a presentation to some 40 to 50 ministerial officials, a committee from various ministers drew up a resolution which was adopted by the Government of Kazakhstan in its Cabinet of Ministers, and signed by the Prime Minister in April, 1996, supporting the LRDS. In addition to general support of the LRDS, the resolution called for fixed rate assignments of the Republic budget to provide for funds from future revenues to be used to repay loans made for the completion of the LRDS, and further to support obtaining loans from financial institutions to implement projects.

Subsequent resolutions from the Prime Minister in September 1996, and from the Minister of Finance in December 1996, supported the first request of \$94.6 million (US) in loans from the World Bank which is now being processed. The LRDS, which at first was thought by many local governmental staffers and the general public to be a wonderful dream, was becoming a reality. While the implementation of the LRDS involved the oblast, the budget support and leadership was firmly placed at the municipal level.

A strengthening of fiscal planning and budgeting was an outgrowth of the LRDS. After the Financial Management System (FMS) was automated in the fall of 1995, and enhanced with new controls and audit procedures in the first half of 1996, the FMS became a planning and budget instrument. Using the LRDS as an umbrella and format, the Municipality formed the 1997 budget through a strategic planning process. Goals were established and prioritized on a three-year basis, then translated into expenditures and estimated revenues. The net product was a first-ever budget based on setting realistic objectives versus being based on last year's expenditures. The Atyrau City Council and citizens participated in the budget planning process. The Oblast Finance Department helped estimate revenues, but for the first time did not interfere with expenditure allocations while the budget was being prepared. A small but significant step in decentralizing and strengthening local capacities was achieved.

Democratization

MFM focused on making government officials more responsive and accountable to the public, while impressing upon the public their own individual responsibilities to become better informed and to participate in civic life. The level of transparency by local government in Atyrau and Karakol was very low prior to the introduction of the MFM program.

The local newspaper in Karakol was defunct due to lack of operating funds, and the operation of government was not news that was ordinarily disseminated anyway. The budget process was strictly internal with no input from the public. When the Mayor wanted to communicate with Karakol citizens, she would meet with the enterprise directors, leaders of the schools, and the city council and ask them to meet with their constituencies to deliver her message.

To alleviate this situation, the Mayor was convinced by the MFM advisor to establish a Karakol public information office to coordinate dissemination of information to the citizens and to listen to citizen complaints and suggestions to improve service. The office coordinated the Mayor's first public presentation of the Karakol budget in 1995 and invited citizen participation into the process. Regional television appearances by the Mayor and timely newspaper articles in a regional newspaper were scheduled by the public information office to provide easy citizen access to information. A city radio station was started with the assistance of U.S. Information Agency (USIA) to complement television and regional newspaper coverage. A suggestion made by a regional reporter at the budget hearing was to print the budget in its entirety in the newspaper prior to the public budget presentation in order for the public to be better informed when asking questions at the public presentation. Also, the Mayor and City Council expressed their admiration for this new way of involving the public in the process of governing.

The public information office developed a TV series and a weekly newspaper (The Silk Road) which made enough to sustain its operation one issue at a time. The newspaper presented a variety of features and a growing readership (Edition One, 2000 copies sold; Edition Two, 3117; and Edition Three, 3299 -- data not yet in on the other issues). At project completion there were 537 regular subscribers, advertisers, a sales kiosk and expansion plans for ten kiosks. A questionnaire to increase sales and readership was distributed to readers.

A 26-part weekly television series utilizing 30-minute Worldnet videotapes on democracy in the U.S. was shown to an Issyk-Kul regional television audience. The 30-minute videotapes in Russian were each followed by a 15-minute discussion of the material by Kyrgyz citizens. Secured with the assistance of the USIA office in Bishkek, this series on democracy proved very popular. Professors from Issyk-Kul University in Karakol requested copies of the videotapes for use in their classrooms, high school teachers brought their classes to the public information office for special showings, and there were numerous requests for copies of the U.S. Constitution (also supplied by USIS) in Kyrgyz and Russian, as well as for as many materials on democracy as the public information office could obtain. The regional newspaper printed abridged versions of the videotape contents, wrote commentary on how it applied in the Kyrgyz context, and invited comments from the public for publication. In addition, the tapes were made available to citizens who did not have access to television on a

VCR located in the public information office. The series completed its 26-week run on April 19, 1996.

As a follow-on to the democracy series, the public information office secured a series of videotapes, also in Russian, explaining the fundamentals of free enterprise. The series will also be shown over Issyk-Kul regional television after first being seen by a specially organized "business persons club" formed for the purpose of meeting weekly to view the tapes and discuss them.

A small example can perhaps demonstrate the efforts of the Atyrau MFM to increase individual responsiveness and active participation in government, social relations, and living environment. An Arbor Day Project proposed by MFM and organized by Peace Corps volunteers in cooperation with the Deputy Mayor for Social Affairs demonstrates projects that individual participation can make a difference in the quality of the lives of the people of Atyrau.

The Municipal Administration responded positively to the MFM Team suggestion to plant some 4,000 small trees to help in a small way to beautify the urban area, which is for the most part treeless and dry. In the beginning, the city staff was in favor of the idea, but wanted the Administration to plant the trees and be directly in control of the work. Besides, the citizenry, they presumed, would be lackadaisical about the idea. After some urging, the Deputy Mayor did agree to let the citizens do the work, risky as that might be. Distribution points were identified and instructions for planting were printed. Newspaper and TV spots announced Arbor Day planting of the trees on April 1. On Arbor Day, all ages turned out en masse to pick up trees. By 11:00 AM, all trees were distributed. In addition, the press covered the clean-up efforts of the volunteer planters cleaning up rubbish around the apartment blocks to prepare for tree planting.

The theme, "I Care", demonstrated the degree to which people care, given the opportunity and means to obtain results. This theme was the underlying thrust of each MFM effort whether it was putting together a long range development strategy, or forming a public/private partnership to manage the Atyrau Development Corporation, the Atyrau Chamber of Commerce, the Professional Women's Association, Student Councils, Apartment Owners Associations and other NGO efforts. For example, Mayor Tkenbaev supported private construction of new housing and served as chairman of the Atyrau Development Corporation (ADC), a public/private partnership to carry out the LRDS. Patricia Buckley, Director of USAID, Central Asia, was a strong advocate of the efforts to support volunteerism and formation of NGOs urged their inclusion in the workplan, and solicited cooperation with Peace Corps volunteers.

Mayor Tkenbaev was supportive of citizens' participation and cooperated with joint efforts to encourage private sector involvement. He repeatedly used the expression that "we" walked in locked step to further the democratization of the city government. An unrealized plan was that upon his retirement from his position as Mayor, he would advocate an election for the new Mayor, or at least an election to nominate a successor as the Republican Constitution did not

provide for public elections. He went so far as to discuss the idea at the Republic level, but did not gain much support for his idea.

Television was used extensively to show how the city was developing programs to aid the citizens of Atyrau. Every TV or radio program spotlighted local initiatives, but no TV coverage was allowed singling out MFM team members. Four programs were produced showing the formation of the LRDS and highlighted the implementation through the Atyrau Development Corporation. The process of formulating the Local Administration and became a catalyst for it to plan and to look for ways to involve non-governmental organizations and the private sector in providing services which during the Soviet rule had become an expected but poorly delivered government function.

The Mayor of Atyrau decided to prepare an annual report for the city. The report included articles and photos that introduced various city projects and plans. The annual report was printed and 40,000 copies were distributed to citizens and businesses. The Atyrau budget was printed in the local newspapers and distributed as a separate handout. When the new financial management software was implemented the local news media covered the story. The Finance Management System installation and its effects on the city budget received TV support in four programs explaining the functions of the FMS.

2. Economic Development

One of the principal elements of the LRDS was the economic development of Atyrau. When the Atyrau program first started, the Governor made it clear that he felt that given the problems in Atyrau, the roughly \$2.0 million for the project would not make much of a dent unless it helped the city leverage other resources. RTI and USAID agreed with this approach and the long term development strategy for Atyrau was launched. The goal was to develop a strategy and implementing mechanisms that would allow the city to use effectively the future income stream from oil revenues to leverage borrowing for major improvements. Changes were needed to improve the lives of the people and to give the city the infrastructure base required to become the hub of the massive oil refining business in the region.

The long range development strategy (LRDS) was developed under MFM direction by the city with assistance from the U.S. consulting engineering firm Kimley Horn. The LRDS was completed in November 1995. The LRDS garnered the support of the Prime Minister's Office and the Finance Ministry in Almaty and the major oil companies working in the Atyrau region. Budget priorities were based on the plan. Considerable public information sharing and input through television, radio and newspapers were part of the creation and dissemination. The LRDS was introduced with slide presentations to city and Oblast officials, the oil companies, ministries, members of Parliament, banks in Almaty, and donor groups. The strategy was used in presentations and discussions with local businessmen and for training purposes, e.g., the Management Leadership Training course for local officials and leaders. The strategy was the basis for one of Kazakhstan's proposals for the Meeting of Consultative Groups of Banks in Tokyo to determine which projects would be funded with the \$1.0 billion these banks pledged for Central Asia.

The strategy projected what development would be required over a 15-year period for Atyrau to achieve the mission of becoming a thriving economic hub of the Northern Caspian Basin. The strategy, based on Atyrau taking its destiny into its own hands, included development, implementation and financial strategy elements. The development elements included a physical growth plan, the infrastructure, transportation, municipal services strategy, and industrial and economic development.

The implementation strategy produced a schedule of development with total investment costs. A key ingredient was the establishment of an implementation entity composed of a public/private interest. The private participation included local business, the oil industry, and some citizens of Atyrau. This was a new concept for Kazakhstan, and it was readily accepted by the governor and Mayor. It also recognized that the economic growth of Atyrau will be generated by the private sector, led by the oil industry.

For the first time, a comprehensive financial strategy projected estimates of the total revenues to be realized from the oil industry and related development over a 15-year period. The financial strategy projected an enormous increase in future government revenues even at conservative oil production estimates. This led officials to realize that the development of LRDS could be financed with a portion of those future revenues and that the Oblast and City would not have to compete or invade the budget allocation the Republic controlled. Armed with a financial plan, the Governor sought and obtained the support of the Republic. The presentation by the MFM team, the Mayor, and the Governor resulted in a decree by the Cabinet of Ministers and subsequent \$94.6 (US) million loan request from the Prime Minister to the World Bank which is now being processed.

To implement the strategy, MFM worked with local leaders to establish an Atyrau Development Corporation. The ADC used the LRDS to seek financing for the projects, plan specific tasks, manage the development activities and assume much of the economic development role for the city. The ADC is a public/private partnership owned 50% by the government and 50% by the Chamber of Commerce. The ADC is governed by a nine person Board of Directors, including business and government leaders and members of the Atyrau general citizenry. The Board established goals, tasks and organization steps and received \$60,000 in contributions to the ADC. The Board elected Mayor Tkenbaev as its Chairman. Two members of the local MFM staff in Atyrau were hired by the ADC.

The Mayor, as chairman of the ADC, made an exploration of public/private development entities in the US during July 1996. Visits were also made to the World Bank, International Finance Corporation (IFC), and the Trade Development Agency (TDA). The World Bank responded positively, and suggested the ADC make a proposal to be considered at a Consultative Meeting in Tokyo in late October, 1996. Visits to development entities in Baltimore, Chattanooga, Research Triangle Park, and Greenville, SC, helped give ideas to the Mayor of the functions and organizational structure. This trip was paid for by the ADC.

The MFM staff also sought out and contacted sources of continued technical assistance beyond the end of the MFM project. Technical assistance was needed to help small enterprises and entrepreneurs start and expand their businesses and production to meet the

demands created by the oil industry. Contacts were made and programs identified with the IFC, the European Bank, and Tacis (The European Union) to help with the ADC and Chamber of Commerce economic development efforts. Each of these entities expressed a specific interest in beginning programs in Atyrau. The ADC will serve as the project implementation unit (PIU) for the World Bank project presently under preparation. Additional technical assistance to strengthen the management capacities of the ADC is required and is an element of the project preparation.

Studies were also completed by MFM to analyze the feasibility of specific projects as well as to survey goods and services to be supplied to the oil industry. Separately, specific studies were done at the request of the Municipality. The feasibility of further developing mini bakeries was studied in Atyrau by a Peace Corps volunteer working for the Atyrau Business Development Center. Another study was directed at completing unfinished apartment buildings in Atyrau. A local construction expert was hired to do a feasibility analysis and to look for sources to finance the completion on a private enterprise basis. Specific proposals were made to complete feasible projects.

The Atyrau Chamber of Commerce was set up as a way to involve citizens in the development process of the city and to develop the principle of volunteerism among businesses. The Chamber elected a Board of Directors, established by-laws, and had subscriptions of \$50,000 from its members by project end. These subscriptions came from companies represented on the board, but full member subscription is the goal. An MFM staff person who returned from three years working in the U.S. became the Membership Director for the Chamber. The Chamber took over part of the offices occupied by the MFM project along with the Atyrau Development Corporation. The two have a natural and complementary relationship.

One of the essential elements in building new enterprises is a source of start-up capital. The USAID-supported Asian Development Fund has expressed interest in Atyrau and set up contacts. IFC has expressed a desire to establish a capital fund to provide small loans to local companies.

The nascent Atyrau Chamber of Commerce (ACC) has formed a committee to consider ACC participation in small business development. The ACC will require additional technical assistance to become an effective and useful local entity.

The future of economic and political reforms in Kyrgyzstan depends on the Republic's ability to develop a productive free enterprise economy. Kyrgyzstan, as a part of the former Soviet Union, was a net recipient of 15% of its goods and services in the planned economy of that system. With independence came the responsibility of providing its own goods and services. This situation was further exacerbated because of the trade complications that evolved with Kyrgyzstan's neighbors in Central Asia and the rest of the FSU as they too gained independence. The trade problems, coupled with the degree of specialization that prevailed in each country in the old system, created a lack of needed goods at affordable prices in each of the republics.

MFMM and other consultants concluded that tourism had the greatest potential for improving the economy of Karakol and the Issyk-Kul Region. Issyk-Kul Lake and the Tien Shan Mountains are unspoiled natural treasures virtually unknown and unmarketed outside the former Soviet Union. Though the lake has appeal to expatriates and Commonwealth of Independent States (CIS) visitors for summer recreation, the Tien Shan region offers a unique experience. Together, lake and mountains provide the basis for what could become a significant source of income for this region. Tourism resort facilities were not maintained after the collapse of the Soviet Union, and many were unfinished or lacked modern conveniences. Investment was needed to upgrade or create accommodations acceptable to Western clientele. The exception was adventure tourism, which needed no immediate facilities and for which there was an enormous market, particularly in Germany, Switzerland, the Netherlands, Great Britain and the U.S.

Burdensome federal and oblast regulations relative to visas and permits and the relative inaccessibility of the region were found to slow efforts to improve tourism. With the assistance of MFMM, a tourism office was established in Karakol. The tourism office was a model demonstrating how a municipal office supports private enterprise and how a city office provides free services to citizens. The tourism office was a catalyst for formation of a private non-profit Karakol tourism association of independent tourism operators. The tourism association encouraged cooperation among private providers and represented their common interests to international agencies and government regulating bodies. The tourism office promoted Karakol, acted as a no-fee clearinghouse for private providers of tourist services such as interpreters, guides, drivers, shelter, cooks, etc., and served as an information and communications service for tourists. This was in contrast to the oblast tourism office which marketed its own tour packages and derived income by imposing fees and fines on independent travelers and private tourism companies.

The tourism office and association were the first of their kind in the country. The office was visited by President Akayev - in May and September 1995 - and was featured in a number of newspapers distributed Republic-wide. The directors of the office and association planned tourism and hospitality industry training programs—using Western experts as instructors—to be held over the next several years. The association served as a support for the Cholpon-Ata region, which was not as far along in its organization and marketing activities. The consultants to both the European Union and World Bank tourism projects suggested that the Karakol tourism office was a model for the rest of the country. The European Union and World Bank cooperated in initiated tourism activities. The federal Ministry of Tourism subsequently recognized the Karakol tourism office as a model and applauded its leadership role.

In an effort to promote international tourism in Kyrgyzstan, a 15-minute video was produced to raise the general visibility of the country and introduce its tourism potential to the international market. Available in German, Russian and English, the film stresses unique aspects of the Issyk-Kul Region especially attractive to the international adventure tourism niche market. The video was distributed to 27 countries, specially targeting tourism agencies and travel writers in Western Europe, East and Southeast Asia, North America, and the CIS, and current and former clients of private operators in the Issyk-Kul region.

A national tourism conference was sponsored by the Karakol Tourism office and MFM to discuss ways to create a more user-friendly tourism environment in Kyrgyzstan - i.e., one with less government over-regulation of visas and permits. Representatives from the Federal Ministry of Tourism, oblast and local tourism offices, tourism specialists from the European Bank, World Bank Tourism Project, and private tourism offices from Almaty, Bishkek, and Issyk-Kul Oblast attended. The participants recommended to the Ministry of Tourism and the President's office a single \$50 fee for visas that could be obtained at the international airport in Bishkek or at embassies abroad. The increase of \$15 per visa would cover all in-country fees and the additional proceeds could be used to purchase tourism maps, to print promotional literature and to support first aid emergency rescue teams in the mountains. The report was distributed widely in government and was well received. As a result of this conference, a free tourism zone was established to experiment with the recommendations in the Issyk-Kul Region.

In a report to MFM and in an article in the major American ski resort industry trade magazine, ski tourism advisors suggested that Kyrkiing and trekking possibilities should have special appeal to Western Europeans who were traveling to Western Canada for this kind of activity. The consultants recommended that a mountain resort be constructed to attract a Western clientele willing to pay \$200/day for a shelter with modern conveniences. Preliminary drawings for a Western-quality mountain resort were drafted by the Karakol city architect and an MFM architectural consultant. A London-based tourism consulting firm on contract to the Kyrgyz Ministry of Tourism submitted a proposal to the Karakol Tourism office for a feasibility study for the project. The preliminary drawings and report were distributed to potential investors from Pakistan, to the Kyrgyz Ministry of Tourism, and, at their request, to the Central Asia Kyrgyzstan desk in BISNIS, U.S. Department of Commerce. In an effort to promote investment in existing enterprises and to grow new industry and business, MFM and the City of Karakol sponsored a week-long seminar on how to produce a business plan. As a result of this business planning instruction, several business plans from Karakol businesses were submitted to the Central Asian American Enterprise Fund (CAAEF) and were evaluated for funding by the CAAEF. The importance of distribution systems, customer service, product quality, relief from product entry and exit barriers and other market functions were discussed. The 29 business leaders attending the seminar were encouraged to analyze their businesses and to draft a business plan as seminar projects. The seminar was videotaped for others from the Issyk-Kul Region for later presentation.

An opportunity presented itself by way of a joint Kyrgyz /Canadian venture. The firm employed 1,200 miners and was spending \$400 million to develop the gold mine in the Issyk-Kul Region. To take advantage of this economic opportunity, MFM project personnel contacted the company's purchasing department in Bishkek and arranged for copies of their purchasing orders to be sent to the economic development coordinator. The coordinator acted as facilitator for the customer and local suppliers. With USAID funding were enlisted to assist MFM and the Mayor's office in providing technical expertise to local enterprises relative to quality production, timely delivery and wholesaling of merchandise. The long term stable marketplace provided a production and marketing cornerstone for Issyk-Kul enterprises to build upon.

. Finance

The vertical reporting lines of the former Soviet system were still prevalent in Kyrgyzstan and Kazakhstan relative to municipal finance. Although municipal budget requests were developed at the municipal level, the present system was still dependent upon allocations made by oblast finance departments and the Ministry of Finance. Appointed oblast governors and the Minister of Finance were reluctant to relinquish their control over municipalities.

However, significant progress had been made both at the local level in the City of Karakol and at the national level because of clear policy direction from Kyrgyz President Askar Akayev and the USAID Mission in Almaty. Personnel from U.S. Treasury, Barents and MFM coordinated their consulting work and implemented with Kyrgyz leaders ways to perfect intergovernmental finance, modern tax structures, budgeting, standardized accounting systems, and more fiscal autonomy for local government.

Training of Kyrgyz government officials in financial systems played a significant role in this process. A financial planning framework course was conducted by RTI consultants in Karakol for more than 200 finance directors, municipal akims, governors and federal officials from all over Kyrgyzstan. President Akayev gave the keynote speech and the Prime Minister attended. The course was designed for market economies and introduced to municipal finance and management techniques. The curriculum included an introduction to U.S. intergovernmental fiscal relations, expenditure analysis, enterprise accounting, user fees, local government budgets and the various forms of taxes including sales, corporate, value-added, and property.

In addition, a capital finance seminar was given in Bishkek for 70 local and national level decision makers. With the breakup of the Soviet Union, a municipal level capital financing gap evolved in FSU Republics. The RTI staff were able to convey the system of general obligation and revenue bonds used in the U.S. as well as systems used in other developed industrial countries. Systems being utilized in developing nations were also discussed. Seminar discussions centered on capital financing strategies for Kyrgyzstan.

One of the main tasks in Karakol was to develop a model city accounting and budget system. To implement this task, computers, computer networking and applications software were designed and installed to provide an efficient city financial system with accountability for revenues and expenditures. A comparatively low-cost approach was undertaken by taking the MFM-developed financial software in Vladivostok and tailoring it to the needs of Karakol. In addition, a tax structure package was implemented in Karakol by a Bishkek software company, and site-specific software has been developed in-house by Karakol computer personnel. The system installed connected city departments electronically with the finance department, Karakol banks and the Oblast tax inspectorate. City departments were also continuing to focus on basic spreadsheet applications developed specifically for their departmental usage.

MFM worked with Karakol Mayor Abdurekhmenova, the Karakol City Council and Karakol departmental officials to perfect a transparent budget system where the process was opened to

the public with discussion encouraged. Budget sessions have been televised regionally and the print media invited to outline the budget and budget discussions in their entirety. The budget cycle in Karakol was also improved substantially. For instance, the budget was not finalized in 1995 until December of that year. In 1996, the budget was finalized on March 10, 1996 and plans are in place for 1997 budget finalized in December 1996. With the guidance of MFM consultants, Karakol officials were also able to balance the 1995 budget. Fiscal year 1995 was the first fiscal year in which the budget had been balanced in several years.

In another positive development, the new budget and revenue reporting and information gave the new mayor a powerful tool with which to make his case to the Oblast for increasing the city's share of revenue. The results of these negotiations produced an unprecedented more than doubling of the city's budget from 14.4 million in 1996 to 29.0+ million in 1997. Major gains were in income tax which increased from 40% share to 100%; VAT tax from 37% to 50% and profits from 40% to 100%. The mayor took pains to give high praise and credit to MFM for this increase in the budget.

The MFM project in Atyrau, working with the City Administration and Finance Department transformed its bookkeeping operation from a hand-written system to an automated financial management system. The effort was accomplished in three phases.

Phase 1: Automate existing operation system and improve operating and control merchandising. August to December 1995.

Phase 2: Enhance the financial reporting and budgetary system; acclimatize management instrument to budget; track and audit the financial operations of the City: January to June 1996.

Phase 3. Develop the Financial Management System into a proactive, strategic, and financial planning process for the City Management: July to November 1996.

The contract set out the tasks and provided for a significant incentive to complete the training, installation and operations by January 1996. The time constraint to complete the contract was met and the system began operating at the beginning of the fiscal year of 1996. The next step, led by a financial planner from the US, was to add a software application to enhance the initial operating system. Expenditure data and audit controls were completed, a communications network was established, and training in finance applications was completed by June 1996.

With a comprehensive and workable system in operation, the next step was to make the FMS a management instrument to plan, budget and control the City finances. During the month of June, a series of seminars was conducted by MFM staff to formulate a system of strategic financial planning for the municipality. Using the format set out in the LRDS, staff of the Finance Department and 12 city staff members were led through the planning process to make the FMS an effective budget tool and management control. As a result the following innovations were introduced:

- A budget calendar which included a public hearing.
- A Strategic Planning Committee made up of key department heads to propose priority areas of spending and action for the city. The committee submitted its first report to the Mayor with suggested priorities and strategies for the next budget year.
- A specific proposal for a public hearing on current issues, budgetary status and short term goals.

MFM built on this beginning to formulate the 1997 Atyrau budget. Starting with the establishment of prioritized goals generated through participation of citizens, City Council members and Municipal Administrators, current revenues and expenditures were estimated. A budget for 1997 was forwarded to the Oblast by November 1997, three months earlier than the previous year. A working guide for future budget programs was produced. The Mayor and his deputies were linked through a computer communication system, thereby enabling the FMS to become an active management tool.

A training program was established in basic computer operating skills and specific program application training. In the fall of 1995, MFM advisors discovered that 15 computers in the Oblast Training Institute were not being used due to lack of skills to install the hardware and the lack of instructors. After some extensive negotiations, the MFM project proposed to upgrade and install the computers, to outfit the training facility, and to provide instructors in exchange for the training institute providing space and computers two hours each day for continued training of municipal staff. A three-year contract was entered into between the Municipality and the Training Institute. At the conclusion of the MFM project, a local computer company entered into a contract to continue the training program for the City Administration and other municipal enterprises.

The LRDS strongly recommended a reorganization and rationalization of Atyrau's utility delivery system after a baseline operating and financial assessment of infrastructure was completed in May 1995. The utility delivery system was fragmented among enterprises and the city, causing inefficiencies, lack of control, and disjointed planning. An MFM expert in municipal service delivery and management assisted the city in this effort. Options for recovering the cost of replacing inferior and/or outmoded technologies were addressed since short equipment life and extraordinary maintenance costs are a major impediment to adequate service delivery.

The draft reorganization plan was presented to the Mayor and to the new Director of Municipal Services (an alumnus of the 1995 Atyrau Executive Study Tour). Discussions were under way on how to implement the steps recommended in the plan, which remained a working document for the city to use in its planning. The reorganization was proposed to be an element in the program the World Bank is considering.

ATYRAU		
Objective Served	Core Activity	Results
1,2	<i>Plan and install modern finance and information system.</i>	<ul style="list-style-type: none"> · Following baseline assessment, equipment procured as required in ADP. Assessed need for computer literacy training. · An Almaty based company adapted and installed a modified financial database software and conducted training. · Negotiated a three year lease agreement with Oblast Training Institute to use its facility in exchange for upgrading equipment and training classrooms. Conducted literacy training for finance, tax, health, municipal services, education departments and official staff. · Held meetings with USAID, U.S. Treasury and the World Bank to coordinate efforts on intergovernmental fiscal reform. Computer software developed is adaptable to new national chart of accounts. · Phase I of financial management system (FMS) software was installed in the Finance Department, and the Health, Education, and Tax Departments were networked to the Finance Department. Implementation was covered by local television. · Budget expert Dorinda Floyd from the city of Milwaukee worked with finance staff to develop their analytic skills and managed implementation of the new financial management system. · Phase II FMS provided enhanced revenue and expenditure information; audit controls; enhanced reporting capabilities; and an extensive communication network. Software development company marketed the software commercially thus expanding reforms. · City finance officials were trained in setting budget objectives and measuring achievements in order to set priorities in a cash-poor environment. LRDS was used as a guide for setting strategic objectives. · Atyrau budget was published in two local newspapers and distributed as a handout.

ATYRAU		
Objective Served	Core Activity	Results
1,3	<i>Produce a long range development strategy addressing most critical infrastructure needs of the city. Will include recommended financing options and implementation mechanisms.</i>	<ul style="list-style-type: none"> · Procurement process was completed to contract a planning and engineering firm. Local counterparts were selected to work with strategy team and guide strategy implementation. Counterparts were surveyed for infrastructure development elements to determine future needs. · Atyrau Planning Institute worked with the Long Range Development Strategy team. LRDS coordinated with Tengiz Chevroil to make activities compatible with Bonus Fund spending plans. · MFMM produced multiple copies of LRDS in English and Russian for use in presenting the findings to the business and donor communities. · Staff worked with Tengiz Chevroil, KCS, and other western oil companies to obtain commitments to fund LRDS activities · Consulting engineer Jim Smith analyzed options to reorganize city services to become more efficient. Report outlined ownership options, costs, and benefits, and proposed an action plan. · The LRDS was presented to Kazakh Vice Prime Ministers for Economics and Urgent Affairs and the Ministers of Oil, Finance, Housing and other government officials also attended the presentation. Officials drafted a resolution supporting LRDS. The City applied to international lenders for a loan to support LRDS goals. The EBRD reviewed loans to private enterprises involved. Costs and benefits study for implementing LRDS was performed to build national support. · City officials and private sector leaders were trained in managing for results and strategic planning. · Atyrau Development Corporation held first annual meeting and elected Mayor Tkenbaev as chair. In subsequent meetings, ADC reviewed by-laws and agreed to send chair of the board to U.S. to study development corporations.

ATYRAU		
Objective Served	Core Activity	Results
2,3,4	<i>Strengthen Democracy through increased public participation.</i>	<ul style="list-style-type: none"> · Executive study tour demonstrated the importance of civic participation for political stability and economic well-being. As a result the development strategy prepared represented a broad range of city interests. · Peace Corps volunteers worked with MFM on a program of public information to promote creation of nongovernmental organizations and public participation in government. · A Professional Women's Association was formed, with elected officers and a charter to govern operations. · MFM and Peace Corps volunteers conducted several activities. Arbor Day theme "I care!" was organized so that private citizens could work with the municipality to beautify public and private spaces by planting 3,000 trees. Junior Student Council organized summer activities. Two day seminar on NGO development was hosted by Counterpart Consortium. · City selected buildings to participate in apartment owners cooperative and Apartment Owners' Association was formed. · City annual report with articles and photos introducing city government plans and projects was printed and 40,000 copies circulated.

ATYRAU		
Objective Served	Core Activity	Results
1,3	<i>Improve enabling environment for free market economy.</i>	<ul style="list-style-type: none"> · For the first time, the city used a competitive bidding process to purchase computer equipment. · MFM assisted in formation of Atyrau's Professional Women's Association. · MFM worked on initiating Sister-cities program and a rotary club. · MFM completed feasibility studies for setting up mini bakeries and for building polypropylene plant. · Oil and other local companies were surveyed to determine urban infrastructure needs. · Chamber of Commerce and Development Corporation organization were established. Atyrau Development Corporation was organized as nonprofit joint stock company owned equally by the city and the Atyrau Chamber of Commerce. ADC sought loans for private sector entrepreneurs whose businesses supported LRDS. Work continued on educating entrepreneurs regarding the benefits of coaligning in a free-market advocacy group.
1	<i>Institutionalization and dissemination.</i>	<ul style="list-style-type: none"> · MFM assisted at the national level in advocacy of intergovernmental fiscal reform through collaboration with USAID and the World Bank. · Atyrau Oblast Governor promoted the long-range development strategy throughout the project; played an instrumental role in setting up meetings with the Ministries of Oil and Finance in Almaty. · Oblast Training Institute agreed to three year lease arrangement and Atyrau Planning Institute became involved in developing a long range strategy. · Large private enterprises and smaller financial and service enterprises participated in developing long range strategy.

KARAKOL

Objective Served	Core Activity	Results
1,2,3	<i>Plan and install a modern financial and management information system.</i>	<ul style="list-style-type: none"> · Training center in Bishkek provided training of trainers for Karakol trainers. Karakol trainers subsequently conducted training in spreadsheet and word processing applications. · Financial Planning Framework course was delivered to 200 participants from throughout Kyrgyzstan. Capital Finance Seminar was delivered to 70 participants influential in setting local and national finance policy. · City Council executive committee study tour introduced Western budgeting concepts. · MFM local finance expert managed all aspects of the new financial system design and implementation, and selected locally developed software for the city tax department. Software improved collection and reporting of taxes from enterprises and provided timely reporting to the mayor's office. · Mayor presented the fiscal 1996 budget to the City Council in the Public Information office. This was the first budget presentation to elected city officials and was videotaped for a wider audience. MFM assisted the mayor in drafting a budget policy statement for department heads. · MFM formed an Automation Working Group to help design the parameters of the budget reporting system. · City designed a municipal budget classification system modeled on one developed by the U.S. Treasury at the national level. This classification was used to implement a manual system for recording fund releases under a departmental reporting plan. · Finance Department purchased software developed for MFM by local firm in Vladivostok. The financial management software was tailored to Karakol. · The International University of Kyrgyzstan (IUK) delivered an unsolicited proposal to perform programming work on municipal finance system. · Local firm was contracted to design software for new chart of accounts and budget process. · 1995 budget was balanced at year end. 1995 budget finalized in December; 1996 budget was finalized in March; 1997 budget was finalized in December 1996. Mayor credited improvements to MFM technical assistance.

1,2,3,4	<i>Local self government reform.</i>	<ul style="list-style-type: none"> · Scope of work was submitted for organization of a public information office in city hall to inform citizens about municipal government operations. • Public Information Office opened in June 1995 and served citizens in relation to questions on provision of services and other municipal problems. · City Council executive committee study tour introduced accountability of city governments to the citizens. · Legal reform specialist worked with charter commissions to draft model charters for Karakol, Aksu raion, and a village in Issyk-Kul. · Reform specialist drafted a federal law on local self-government for review and passage through the new Kyrgyz parliament. She also drafted a presidential decree to authorize Karakol and Aksu raion to implement local charters. · Public Information Office coordinated weekly regional broadcasts of a 28-part USIS television series on government by consent. Foreign Minister Otunbaeva, who viewed a program in Karakol, proposed showing the series on national television; this will be pursued by USIS. · Public Information Office broadcast series explained fundamentals of free enterprise.
1,2,3,4	<i>Executive and legislative leadership reform.</i>	<ul style="list-style-type: none"> · Executive study tour provided a common frame of reference for the mayor and her administration as they decided on reforms for the city. · Executive seminar was held in the U.S. for key players in executive and legislative reform at the national level. The seminar focused on decentralized intergovernmental relations in the U.S. context of a free-market democracy. The goal was further refining and support for the draft federal law on local self-government. · Karakol Mayor, Deputy Governor, and Issyk-Kul Oblast legislative head worked with advisor on refining a regional model for self-government that could be emulated nationwide. · Mayor worked with MFM to prepare a public presentation on the city's budget, which was televised to the region's viewers.

1,3	<i>Create capacity in city for realizing its economic development potential.</i>	<ul style="list-style-type: none"> · U.S. study tour provided guidance on how to enter the crafts trade and international tourism market. · City produced a tourism promotion video. · Economic Development Office opened in city hall in June 1995. The Office helped attract investment, promote tourism, and coordinate economic technical assistance. · A one-day tourism conference was organized for Kyrgyz officials from federal and local levels to help them understand how to make the Kyrgyz tourist industry more “user friendly”. · A consulting architect worked with the city architect to make preliminary design plans for an upgraded tourist resort to meet demand from the adventure tourism market. Investors were contacted. · Karakol Tourism Office devised an international distribution plan (25 countries) for the 15-minute tourism video produced. The video was shown at the International Tourism Exchange Convention in Berlin. Foreign Minister sponsored a special showing of the video in Bishkek to encourage its broader distribution and showing. · Karakol Tourism Office established ties with the new International College of Tourism in Bishkek. Karakol Tourism Office formed the Karakol Tourism Association for tourism operators and craftsmen. Karakol Tourism Office was a model for a municipal organization which served the role of facilitating for private sector. · Economic Development Office worked to help gold company meet requirements to outfit miners and meet other needs using local Kyrgyz suppliers. · Public Information Office obtained a series of videos on the fundamentals of free enterprise that was previewed by local “business club”. · Business planning seminar trained local entrepreneurs to prepare business plans and gave basic instruction in market economy competition. As a result businesses submitted plans to the Central Asian Enterprise Fund.
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Key to Objectives:

- (1) Finance and management
- (2) Democratization
- (3) Building basis for hope
- (4) Institutionalization and sustainability

IV. Administrative Information

The Democratic Pluralism Initiatives Project, unofficially renamed the Municipal Finance and Management (MFM) project, was contracted between the Research Triangle Institute (RTI) and the US Agency for International Development for a period of performance of July 14, 1993 through July 13, 1996. The original contract amount was \$24,172,660, although RTI received a funded extension to March 31, 1997 increasing the contracted amount to \$25,959,737.

The contract required that RTI set up a satellite office in Washington, DC to provide technical support and management of the MFM project. This team, later called the TSM (Technical Support and Management) team, collaborated with the home RTI office in the Research Triangle Park, North Carolina, which provided assistance from RTI's Accounting Department, Office of Research Contracts, Office of Purchasing, and the Center for International Development. RTI utilized various home office technical staff as well as consultants and sub-contractors, including: Georgia State University, American Management Systems (AMS), Management Systems International (MSI), Andersen Consulting, Price Waterhouse and Development Group International. RTI posted full-time, long-term field advisor or advisory teams in 9 cities over the life of the project. MFM activities in the following cities included long-term advisors for the following periods:

Nizhny Novgorod, Russia	December 1993 - May 1995
Moscow, Russia	January 1994 - February 1997
Vladivostok, Russia	March 1994 - July 1995
Kharkiv, Ukraine	September 1994 - August 1996
Lviv, Ukraine	September 1994 - June 1996
Ternopil, Ukraine	September 1994 - September 1996
Kiev, Ukraine	September 1995 - March 1997
Atyrau, Kazakhstan	October 1994 - November 1996
Karakol, Kyrgyzstan	November 1994 - October 1996

During the course of the contract, many contacts were made, and numerous training sessions were given to build capacity at the local level. Attached, in Appendix #3 are representative lists of counterparts, training recipients, and others helpful to MFM goals during the course of the contract. These lists reflect incumbents at the time the contacts were made or training was conducted; many have since moved into other positions.

Work in the above referenced and other partner cities often continued with local project and city staff trained by MFM. All long and short-term advisors on MFM were managed and supported by the Washington-based team, which for much of the project, worked closely with USAID's Contracting Officer's Technical Representative (COTR), also in Washington. In early 1996, the USAID administration of the MFM project was transferred to field missions in Russia, Ukraine, and the Central Asian Republics. The RTI project staff in Washington continued in a technical support and management role and coordinated in-country activity with the USAID Missions and USAID Washington.

When the Municipal Finance and Management contract was signed, USAID obligated \$7,300,000 and a series of modifications increased the level of funding. Contract Modifications include:

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|-------------|--|
| No. 1 | effective 1/6/94, incremental funding of \$5,000,000 |
| No. 2 | effective 8/16/94, incremental funding of \$7,200,000 |
| “Universal” | effective 10/13/94, providing new reporting requirements |
| No. 3 | effective 3/3/95, incremental funding of \$3,500,000 |
| No. 4 | effective 6/23/95, incremental funding of \$1,172,660 |
| No. 5 | effective 8/25/95, changed financial reporting to require costs broken down by country, and required CO approval for nonexpendable equipment purchases of more than \$25,000 |
| | |
| No. 6 | effective 7/10/96, non-funded extension through December 31, 1996 |
| | |
| No. 7 | effective 9/30/96, increased contract amount by \$1,787,077 extended Period of Performance to March 31, 1997 |
| No. 8 | effective 10/22/96, changes to section C and D (Scope of Work) of contract |

At project initiation RTI reported financially by contract line item, and USAID requested in October 1995 that we also track costs by country. We, therefore, modified our system to provide USAID vouchers for each country, as well as vouchers for TSM and “All City” tasks which were submitted to USAID/DC. Attached (Appendix C) is a fiscal report, created for this final technical report, that presents how contract funds were disbursed by line item and by country. These are estimates and include an allocation of the technical support and management costs as well as costs incurred in the start-up of the project that could not be specifically broken down by country (including multi-country assessment and city selection trips). At the time of this report, RTI has expended roughly 99% of the project funds and provided 770 person months of long and short- term assistance to Russia, Ukraine, Kazakhstan, and Kyrgyzstan as required by contract #CCN-0007-C-00-3110-00.

V. Conclusions

General

These four countries inherited from the Soviet system a highly centralized system of governance. The Soviet system discouraged local allegiances and encouraged verticality. Building trust and information sharing within cities is difficult (mayors mistrust councils, and city departments have a habit of looking to oblasts or national ministries in Moscow or Kiev for support in their struggles with other city departments). Building trust and participation with citizens is even more difficult. There was probably an underlying assumption at the time this project began that people were hungry for information, and that if cities became more open, participation would follow. In many cases, it became clear that citizens did not have the skills, interest, or inclination to participate at this transitional stage. They were often pressed by immediate concerns about their jobs, their income and their families. Building effective participation is a long term process. While we have made a good beginning, it is only a beginning.

The three principal factors contributing to the project's success include:

- a clear long-term strategic approach
- the flexibility to be responsive to city-specific needs and national priorities
- resident advisors who had the time to know the situation on the ground in depth

Russia

The MFM Project in Russia assisted and enabled reform minded Russian public officials and municipal administrations to make incremental changes to a very deeply embedded governmental system. In the three pilot cities of Moscow, Nizhny Novgorod and Vladivostok, significant steps were made in improving financial management and transparency, and in strengthening democratic decision making. The timing of the project was contemporaneous with major changes in the municipal electoral process and expectations for public accountability. The knowledge and experience gained in the first three pilot cities increased the effectiveness of the national program in the dissemination of ideals, practices, tools and anticipated results to a wide range of cities.

Over time it may be demonstrated that the greatest impact of the Project in Russia was from the interactive assistance work with the regional cities such as Vladimir, Tomsk, Tver and Krasnodar and with the Moscow State Tax Inspectorate. In both the middle-sized cities and the tax administration there were strong, resourceful leaders who served as responsible counterparts to the Project advisors. Local leadership, adequate resources and international partnership proved to be the necessary formula for success. Once they have proven themselves more effective and then been democratically validated, we hope that these units of “good local government” will, in turn, serve as models for innovation and reform for other cities in the former Soviet Union.

Finally, the Union of Russian Cities came to serve as our primary partner for the institutionalization of the systemic changes. During our working relationship the association matured. Still, Russia is enormous and there are many cities struggling with issues of reform and viability. Therefore with continued international contact and support the Union would strengthen the cause of improved municipal finance and management in Russian cities.

Ukraine

The MFM project in Ukraine strengthened local governments, and made them more democratic and open. In the pilot cities of Lviv, Kharkiv and Ternopil the project promoted greater transparency in municipal financial planning and execution, increased public input to local decision making, opened access to information, and inspired greater accountability by local officials. The MFM program and its advisors were able to work effectively at both the local and national levels, weaving new concepts of democracy, transparency, development, and governance into the municipal fabric of Ukraine. Cities in Ukraine have more authority and more information than they had at the beginning of the Project, and the Project's support of individual cities and the Ukrainian Association of Cities was one key factor in this change. The Ukrainian Association of Cities may be the Project's greatest legacy, as it is a long-term institutional voice for decentralization.

Central Asia

MFM registered major impact in both Atyrau and Karakol. At the Project's end, the prospects were favorable for sustaining the results. Many of the efforts could be replicated in other cities in the respective countries or across the region. Moreover, both cities, in their own and unique ways, were able to register impact at the national level -- the city Charter in Karakol and the Long Term Development Strategy in Atyrau. Further, the advances made in both cities in adopting modern financial management systems left models that should be transferred to other cities. The MFM models represent a rich reservoir of experience and technical achievement that can be mined without much further investment in approaches and techniques. New ground was plowed in a new environment and the difficulty of achieving clear results in Karakol and Atyrau should not be underestimated. However, the results compare favorably with results achieved in the other cities in conditions of greater technological advance and sophistication. The local staff and counterparts rapidly adapted new concepts, computer systems and approaches. It is a tribute to their desire to learn and move forward, even under sometimes trying conditions. This progress now needs reinforcement.